

# Drinking Water State Revolving Fund

State Fiscal Year

*Annual Report*

2013



Missouri  
Department of  
Natural Resources



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## **I. Introduction**

The State of Missouri is pleased to submit this Annual Report for the Missouri Department of Natural Resources' (Department) Drinking Water State Revolving Fund (SRF) for state fiscal year 2013 as required by the U.S. Environmental Protection Agency (EPA) Drinking Water SRF Program guidelines. This report addresses operation of the Drinking Water SRF Program during the time period from July 1, 2012 through June 30, 2013.

The terms and conditions of the capitalization grants for federal fiscal year 2012 (Missouri's Drinking Water SRF program activities for state fiscal year 2013) required that not less than 30 percent of assistance provided be in the form of additional loan subsidies, such as principal forgiveness, negative interest loans or grants. Missouri chose to provide the required subsidization through grants. State fiscal year 2013 capitalization grant funds were committed to projects through a combination of 50 percent grant and 50 percent loan with a maximum grant of \$2,000,000 per applicant. Disadvantaged communities were eligible for additional subsidization through a combination of 75 percent grant and a 25 percent direct loan with a maximum grant of \$2,000,000 per applicant.

The Department provides this report detailing the activities undertaken to reach the goals and objectives set forth in the Intended Use Plans developed for state fiscal year 2013. This report documents the status of the program by describing progress made toward long and short term program goals, the sources (e.g., federal grants) and uses of all funds (e.g. loans), financial status of the Drinking Water SRF, and compliance with Federal Drinking Water SRF requirements.

## **II. Executive Summary**

The State of Missouri's Drinking Water SRF Program has received a total of \$273,047,331 in EPA Capitalization Grants and Amendments through June 30, 2013. This amount does include an in-kind amount of \$1,444 on the FS997629-00 grant and the in-kind amount of \$100,000 on the FS997629-06, FS997629-08, and FS997629-11 grants. All of these amounts are not available to be drawn. During state fiscal year 2013, \$18,500,000 of Drinking Water SRF Capitalization Grant funds were transferred to the Clean Water SRF program. FS997629-07, FS997629-08, FS997629-09 and FS997629-10 Drinking Water Capitalization grants were amended to reflect this transfer of capitalization grant funds.

The Drinking Water SRF Program has contributed state match of \$47,111,987, which includes \$15,504,549 of state appropriations, \$24,447,276 of revenue bonds and \$7,160,162 of funds contributed through rural water grants. Since the inception of the program, the State of Missouri has made 73 leveraged loan commitments totaling \$250,735,000. In addition, the Department has made 43 direct loan commitments totaling \$53,680,200 and 33 grant commitments totaling \$28,111,569.

Below is a list of all the Drinking Water SRF Capitalization Grant awards from the inception of the program through state fiscal year 2013.

### Drinking Water SRF Capitalization Grants

<b>Drinking Water SRF Federal Fiscal Year</b>	<b>Award Amount</b>	<b>Cumulative</b>
1997	\$21,856,417	\$21,856,417
1998	\$9,572,970	\$31,429,387
1999	\$10,034,771	\$41,464,158
2000	\$10,429,700	\$51,893,858
2001	\$10,472,900	\$62,366,758
2002	\$11,702,600	\$74,069,358
2003	\$11,633,700	\$85,703,058
2004	\$12,066,800	\$97,769,858
2005	\$12,041,273	\$109,811,131
2006	\$15,978,200	\$125,789,331
2007*	\$15,978,000	\$141,767,331
2008*	\$15,816,000	\$157,583,331
2009*	\$15,816,000	\$173,399,331
2010*	\$26,234,000	\$199,633,331
ARRA	\$37,862,000	\$237,495,331
2011	\$18,204,000	\$255,699,331
2012	\$17,348,000	\$273,047,331

\*The original grant amount is listed in this table. These grants were amended.

During state fiscal year 2013, no pooled leveraged loan closings occurred. Nine (9) direct loans totaling \$7,153,600 were closed during state fiscal year 2013. Eight (8) SRF grants totaling \$6,398,733 were awarded during state fiscal year 2013. (Refer to the table on the next page)

Below is a summary of Drinking Water SRF binding commitments. The cumulative total Drinking Water SRF binding commitment on June 30, 2013, is \$332,526,769. The Drinking Water SRF has never had a recipient default on their loan.

### Binding Commitment Summary

<b>State Fiscal Year 2013 Cumulative Binding Commitments</b>	<b>Amount</b>
Leveraged Loans	\$250,735,000
Direct Loans	\$53,680,200
ARRA Grants	\$18,948,152
SRF Grants	\$9,163,417
<b>Total Binding Commitments</b>	<b>\$332,526,769</b>

The Wastewater Loan Revolving Fund, Fund 0602, was established to receive loan repayments, which are then used to make new loans. As of June 30, 2013, the Wastewater Loan Revolving Fund had a balance of \$18,255,329. The EPA Capitalization Grant balance for Drinking Water SRF projects was \$36,035,994 as of June 30, 2013. The EPA Capitalization Grant balance related to the Drinking Water set-asides was \$12,276,516 as of June 30, 2013. The EPA Capitalization Grant Balance total is \$48,312,510.

American Recovery and Reinvestment Act (ARRA) expenditures as of June 30, 2013, totaled \$37,862,000, with a total of 16 projects out of 19 completed.

### III. State Fiscal Year 2013 Binding Commitments

The Department entered into nine (9) direct loan commitments as well as eight (8) grant commitments totaling \$13,552,333 during state fiscal year 2013.

#### Drinking Water SRF Commitments During State Fiscal Year 2013

Recipient	Total Commitment Amount	Loan Commitment Amount	Grant Commitment Amount	Date	Project ID
Jefferson County Water Authority	\$1,502,000	\$751,000	\$751,000	07/25/2012	DW291310-01
City of Poplar Bluff	\$2,648,000	\$1,324,000	\$1,324,000	07/31/2012	DW291204-02
City of Rogersville	\$1,241,113	\$682,000	\$559,113	08/14/2012	DW291276-01
City of Desloge	\$1,564,000	\$782,000	\$782,000	09/27/2012	DW291258-01
City of Warsaw	\$1,478,000	\$739,000	\$739,000	11/28/2012	DW291293-01
Jefferson Co PWSD #8	\$520,000	\$260,000	\$260,000	11/29/2012	DW291322-01
City of Linn	\$2,260,620	\$1,143,000	\$1,117,620	01/30/2013	DW291162-04
Jefferson Co PWSD #12	\$1,732,000	\$866,000	\$866,000	05/22/2013	DW291324-01
City of Tipton	\$606,600	\$606,600	\$0	06/18/2013	DW291331-01
State Fiscal Year 2013	\$13,552,333	\$7,153,600	\$6,398,733		

PWSD – Public Water Supply District

### IV. Estimated Savings

The innovative financing provided through the Drinking Water SRF program allows communities to save a considerable percentage of the interest cost of conventional loans. To date, Missouri's Drinking Water SRF Program has saved communities an estimated \$91,154,062 in lower interest compared to the higher interest rates of conventional financing. Additional subsidization through the Drinking Water SRF program has saved communities an estimated \$28,111,569 due to communities receiving grants in addition to loans.

### V. Drinking Water SRF Applications and Loans Awarded

Below is a summary of the number of new and carryover Drinking Water SRF applications for state fiscal year 2013. This information was taken from the Intended Use Plan for 2013.

Drinking Water SRF Applications	
Projects Accepted	State Fiscal Year 2013
Number of New Projects	14
Number of Carryover Projects	29
Total Number of Projects	43

Total \$ Request of New Projects	\$36,376,128
Total \$ Request of Carryover Projects	\$129,640,910
Total \$ Request of Projects	\$166,017,038
Total Population Served for New Projects	376,057
Total Population Served for Carryover Projects	258,149
Total Population Served	634,206

The table below summarizes the number of projects approved, the amounts of the loans, grants and the total population served for those projects.

<b>Drinking Water SRF Loan Projects Approved and Loans Awarded</b>	
<b>Projects Approved and Loans Awarded</b>	<b>State Fiscal Year 2013</b>
Number of Projects Approved (Closed Loans)	9
Total Amount Of Loans Closed	\$7,153,600
Total Amount Of Grants Closed	\$6,398,733
Total Population Served	52,075

The following table shows the cumulative Drinking Water SRF leveraged loan closings since the beginning of the program.

<b>Cumulative Drinking Water SRF Leveraged Loans</b>				
<b>Bond Pool</b>	<b>Number of Loans</b>	<b>Total Loan Amount</b>	<b>Subsidized Interest Rate + 0.5 Administrative Fee</b>	<b>Cumulative Amount</b>
1998A	2	\$28,795,000	3.58%	\$28,795,000
1999A	1	\$2,315,000	3.57%	\$31,110,000
1999B	2	\$4,320,000	4.07%	\$35,430,000
2000A	6	\$20,490,000	4.01%	\$55,920,000
2000B	4	\$6,810,000	3.87%	\$62,730,000
2001A	4	\$6,295,000	3.43%	\$69,025,000
2001C	7	\$23,400,000	3.95%	\$92,425,000
2002A	4	\$10,370,000	2.93%	\$102,795,000
2002B	4	\$26,705,000	2.93%	\$129,500,000
2003B	4	\$11,445,000	2.68%	\$140,945,000
2003C	5	\$11,290,000	2.20%	\$152,235,000
2004B	2	\$3,605,000	2.13%	\$155,840,000
2004C	5	\$9,720,000	2.13%	\$165,560,000
2005A	3	\$28,105,000	2.27%	\$193,665,000
2005C	4	\$29,780,000	1.84%	\$223,445,000
2006A	3	\$2,000,000	2.05%	\$225,445,000
2006B	1	\$2,295,000	2.08%	\$227,740,000
2007A	6	\$11,805,000	1.83%	\$239,545,000
2007B	1	\$385,000	2.01%	\$239,930,000
2008A	5	\$10,805,000	2.13%	\$250,735,000



## **VI. Goals of the Drinking Water State Revolving Fund**

Each year the Department evaluates the operations and the financial structures of the SRF Program to gauge the program's effectiveness. Long and short term goals are proposed to improve program services and investment returns. An assessment of these goals is included in the program's Annual Report. The following sections present the current strategies for program improvements.

### **Long Term Goals**

In order to meet the long term objectives (3–5 years) of improving the Drinking Water SRF's operations and service to its clients, the Department developed the following goals: 1) Protect public health by ensuring that all Missouri citizens will have water that is always safe to drink; 2) Provide below market rate financial assistance while assuring the perpetual nature of the program; 3) Explore ways to make the program more affordable/desirable to systems; 4) Ensure the long term viability of existing and proposed water systems; 5) Protect source water for drinking water systems; and 6) To promote coordination of efforts both within and outside the agency for the purpose of expediting the funding of projects.

### **Short Term Goals**

In order to meet the short term objectives (1–3 years) of improving the immediate operations and the availability of services to its clients, the Department developed the following goals:

1) Maximize the use and impact of available loan funds for eligible projects in accordance with the priorities and procedures described in this plan, utilizing sound financial management; 2) Conduct year by year financial analyses of the availability and use of funds. Evaluate the effects of different program structures on the ability to provide financial assistance now and in the future; 3) Continue to assist water systems in meeting Safe Drinking Water Act requirements; 4) Encourage projects to consolidate or interconnect in a regional manner which would reduce public health risks or make more efficient use of source water capacity and treatment processes; 5) Have the Drinking Water SRF priority point criteria and readiness to proceed criteria updated and approved by the Safe Drinking Water Commission at least 60 days prior to the initial application receipt deadline (Nov. 15, 2012); and 6) Continue to identify projects that qualify for green project reserve funding, in accordance with federal guidance.

## **VII. Progress Toward Achieving Goals**

This section of the Annual Report discusses the progress that has been made in meeting those long and short term goals for the period from July 1, 2012 to June 30, 2013.

### **Progress Toward Meeting the Long Term Goals**

The Department has developed the following long term (3-5 years) goals with the objective of improving the Drinking Water SRF's operations and availability of services to its clients.

Goal 1: Protect public health by ensuring that all Missouri citizens will have water that is always safe to drink.

*The Department continues to meet this objective by providing affordable financing to public water systems to fund improvements to drinking water infrastructure. These improvements allow public water systems to continue providing safe, clean and abundant drinking water to the citizens of Missouri. The Department has made a concerted effort to assist projects in moving towards funding. In state fiscal year 2013, nine (9) projects entered into funding commitments, as compared to six (6) projects the previous year. This represents a fifty percent increase in the number of projects.*

*The Public Drinking Water Branch continues to provide oversight of all public water systems in the state to ensure compliance with the Safe Drinking Water Act. Missouri's community water systems consistently have higher compliance rates with health-based standards than the national average.*

Goal 2: Provide below market rate financial assistance while assuring the perpetual nature of the program.

*The "cash flow model loan program" is functioning well. The Department continues to evaluate possible future program structures to ensure the program provides a stable source of funding for drinking water infrastructure projects well into the future.*

Goal 3: Explore ways to make the program more affordable/desirable to systems.

*The Department actively searches for new forums, venues and opportunities to discuss the program and market it to potential applicants. Staff is also doing more one-on-one work with applicants to facilitate the projects moving through the process. This process has been successful in reenergizing projects that appeared to have been stalled. The fifty percent increase in the number of projects entering into funding commitments in state fiscal year 2013 demonstrates significant progress in meeting this goal.*

Goal 4: Ensure the long term viability of existing and proposed water systems.

*The Department's priority point criteria awards points for projects that ensure long term system viability. This leads to the funding of these projects and progress towards accomplishing this goal. Staff evaluate each applicant's technical, managerial and financial capacity (TMF). As projects are developed, staff work with the applicants to ensure that TMF will be maintained.*

*Applicants are also encouraged to include more than one (1) method of accomplishing the project's objective. Staff then work with the applicant to select the method which best addresses this and other goals.*

Goal 5: Protect source water for drinking water systems.

*The Department is actively involved with existing and future regional water systems. Each of these systems has protected long term sources of water. These systems are or will be located throughout the central, northern and southwestern portions of the state.*

*The Department's priority point criteria also awards points for these types of projects. This increases the probability of the projects receiving funding.*

Goal 6: To promote coordination of efforts both within and outside the agency for the purpose of expediting the funding of projects.

*Program staff have a collaborative working relationship with other Department staff as well as other state and federal agencies in an effort to expedite project development and to make the most efficient use of available funding from each agency. This takes place through the Missouri Water and Wastewater Review Committee, comprised of the Department of Natural Resources, the Department of Economic Development, the U.S. Department of Agriculture, and the Rural Development Program. These relationships assist in maximizing the environmental impact of the limited available funding.*

### **Progress Toward Meeting the Short Term Goals**

The Department developed the following short term (1-3 years) goals with the objective of improving the Drinking Water SRF's immediate operations and the availability of services to its clients.

Goal 1: Maximize the use and impact of available loan funds for eligible projects in accordance with the priorities and procedures described in this plan, utilizing sound financial management.

*Program staff continues to work with applicants to achieve readiness to proceed status. The incorporation of readiness to proceed criteria in the review process has enabled projects to proceed to loan closing in a more timely manner, thus enabling the program to maximize the use of available funds.*

*Staff are also doing more one-on-one work with applicants to facilitate the projects moving through the process. This process has been successful in reenergizing projects that appeared to have been stalled. The fifty percent increase in the number of projects entering into funding commitments in state fiscal year 2013 demonstrates significant progress in meeting this goal.*

Goal 2: Conduct year by year financial analyses of the availability and use of Drinking Water SRF funds. Evaluate the effects of different program structures on the ability of the Drinking Water SRF to provide financial assistance now and in the future.

*The "cash flow model loan program" is functioning well. The Department continues to evaluate possible future program structures to ensure the program provides a stable source of funding for drinking water infrastructure projects well into the future.*

Goal 3: Continue to assist water systems in meeting Safe Drinking Water Act requirements.

*As Safe Drinking Water Act requirements increase, staff work with systems to assure that projects will result in meeting or exceeding the requirements in an affordable manner. Financial Assistance Center staff coordinate with staff in the Public Drinking Water Branch to assure compliance. The Public Drinking Water Branch administers the Drinking Water SRF set-asides to provide technical and compliance assistance to public water systems.*

Goal 4: Encourage projects to consolidate or interconnect in a regional manner which would reduce public health risks or make more efficient use of source water capacity and treatment processes.

*The Department is actively involved with existing and future regional water systems. These systems are or will be located throughout the central, northern and southwestern portions of the state.*

*Department staff encourage interconnection when visiting systems that would benefit from it. The Department's priority point criteria also awards points for these types of projects. This increases the probability of the projects receiving funding.*

Goal 5: Have the Drinking Water SRF Priority Point Criteria and Readiness to Proceed Criteria updated and approved by the Missouri Safe Drinking Water Commission at least 60 days prior to the initial application receipt deadline (November 15, 2012).

*This objective was accomplished on June 28, 2012.*

Goal 6: Continue to identify projects that qualify for green project reserve funding in accordance with federal guidance.

*The Department has and will continue to identify projects that qualify for this funding, as well as work with the recipients to guide each project to a successful implementation. There were three (3) projects that qualified for Green Project Reserve (GPR) Funding in state fiscal year 2013.*

- 1) Linn received a SRF Loan and a SRF Grant totaling \$2,260,620 of which \$300,000 was for GPR qualified under the business case.*
- 2) Tipton received a SRF Loan totaling \$606,600 of which \$606,600 was for GPR qualified under the business case.*
- 3) Warsaw received a SRF Loan and a SRF Grant totaling \$1,478,000 of which \$1,478,000 was for GPR qualified under the categorical case.*

## **VIII. Set-Aside Activities**

When Congress established the Drinking Water SRF in 1996, it included special provisions called "set-asides" for the purpose of helping states better achieve the public health protection objectives of the Safe Drinking Water Act. The set-asides provide funding to enhance state public drinking water programs and assist systems with non-infrastructure needs.

The Safe Drinking Water Act establishes four (4) categories of set-asides and set limits on the maximum percent of the capitalization grant. States are allowed to reserve up to 31 percent of each year's capitalization grant for set-aside activities. The set-asides are administered by the Public Drinking Water Branch. Each of the set-asides and the related activities the Department has funded during the time period covered by this report are discussed below.

### **Administration and Technical Assistance**

The Safe Drinking Water Act allows states to use up to four (4) percent of each capitalization grant for administration of the programs established under Safe Drinking Water Act §1452 (Drinking Water SRF programs) and for technical assistance to public water systems of any size. The Department reserved the entire authorized four (4) percent allowed for this set-aside for the capitalization grant for federal fiscal year 2012. The Department plans to use it for authorized activities in later years.

In the time period covered by this report, the Department used this set-aside for the cost of administering the Drinking Water SRF Loan Program, including paying the salaries and associated expenses of program personnel devoting time to the administration of the fund. Staff has provided assistance to applicants and loan recipients, reviewed projects, assisted systems with the Needs Survey, prioritized projects, issued loans, tracked repayments and performed project inspections. The Department has also used the set-aside to obtain all equipment and training for the adequate performance of Drinking Water SRF Loan Program staff. A portion of this set-aside also was used to provide technical assistance to public water systems in 2013. This set-aside also was used to provide funding for Engineering Services Grants, which assists water systems needing engineering report services. The Department provides this funding as a grant to help community water systems obtain an engineering report as a first step toward implementing changes that will help the system achieve and maintain technical, managerial and financial capacity, including compliance with the National Primary Drinking Water Regulations and the Missouri public drinking water regulations. For a full description of the Engineering Services Grant program, which is funded by three different set-asides, please see the description provided below for the Small System Technical Assistance set-aside. Lastly, the set-aside was not used for administering non-loan programs established under section 1452 of the Safe Drinking Water Act.

### **Small System Technical Assistance**

The Safe Drinking Water Act allows states to use up to two (2) percent of each capitalization grant for technical assistance to public water systems serving less than 10,000 people. The Department reserved the entire authorized two (2) percent of the 2012 capitalization grant for this set-aside.

#### *Circuit Riders*

In the time period covered by this report, the Department used a portion of this set-aside to fund circuit riders to provide assistance to public water systems in the following areas: technical, managerial and financial needs; water and energy efficiency measures such as unaccounted for water loss; and operator certification and training.

The circuit riders provide individual system assistance and small group training throughout the state. The circuit riders are primarily funded through the Local Assistance and Other State Programs (LA/O) set-aside. Their activities are described in detail under the LA/O set-aside.

#### *Engineering Report Services Grant*

The major undertaking with this set-aside has been assistance provided to small community water systems needing engineering report services. The Department provides this funding as a grant to help small and very small community water systems obtain an engineering report as a first step toward implementing changes that will help the system achieve and maintain technical, managerial and financial capacity, including compliance with the National Primary Drinking Water Regulations and the Missouri public drinking water regulations.

The Department has provided this assistance since 1999. The owners and operators of very small systems recognize the need and value of an engineering review of their system but are often unable to afford the entire cost of obtaining the report. The Department funds up to 90 percent of the cost of the report. In the case of disadvantaged communities, the entire cost of the report may be funded by the Engineering Report Services Grant.

The Department reviews and ranks the applications for this funding based on a priority point ranking system similar to the Drinking Water SRF Leveraged Loan Program. Additional priority points are awarded to systems who demonstrate capacity to follow through with recommendations found in the engineering reports. The Department adjusts the priority points based on system size, affordability of the project based on cost/population, and various eligibility factors, such as meeting Permit to Dispense and operator certification requirements.

Applicants with the greatest need based on priority points are selected for award. They must use a solicitation process to select an engineering firm. Upon proof of proper solicitation, the water system owner, the engineer and the Department sign a Three-Party Payment Agreement. The engineer evaluates the system and produces a preliminary engineering report assessing improvements needed to ensure compliance with drinking water requirements and protection of public health. This may include infrastructure improvements, consolidation with another system, regionalization, or other means to ensure that the system provides safe drinking water.

Initially limited to very small communities (3,300 population or less), the Department has expanded this effort to include larger communities. The Department has also significantly increased the amount of the grant award. Systems that need and qualify for an Engineering Report Services Grant but are not eligible for funding under this set-aside due to system size are provided a grant from the LA/O set-aside as part of the Capacity Development Strategy.

The 2013 solicitation was initiated on December 15, 2012, with a deadline of March 15, 2013 for submission of applications. One-hundred-two (102) applications were received, totaling \$4,516,836.04. Public Drinking Water Branch has recommended offering grants to 90 applicants for a total of \$1,135,925.20. Final decisions and award offers will be made in state fiscal year 2014.

## **Public Water System Supervision Program Management**

The Safe Drinking Water Act allows states to use up to 10 percent of each capitalization grant for the public water system supervision program. The state must provide a one-to-one match out of state funds in order to use this set-aside. The Department uses the primacy fee to meet this match requirement.

Congress established this set-aside in order to help states with the following programs:

- Implement and administer the public drinking water primacy program;
- Provide technical assistance to public water systems through source water protection programs;
- Develop and implement a Capacity Development Strategy; and
- Develop and implement an operator certification program meeting federal requirements.

The Department reserved the entire 10 percent of this set-aside. Various units of the Department carry out the activities authorized by this set-aside, including the Public Drinking Water Branch and the Department's regional offices. The Department primarily uses this set-aside to support required primacy program activities.

### *Primacy Program*

The set-aside provides funding critical for the administration, implementation and enforcement of public drinking water primacy requirement. The Department uses this set-aside for the following activities:

- ◆ Support primacy program activities such as program administration, rule development, primacy applications, compliance and enforcement, inspections and sanitary surveys, information and data management, reports, record keeping and all other activities required of a primacy program;
- ◆ Fund operator certification section staff;
- ◆ Develop and administer contracts for SDWIS/State updates and maintenance for reporting to EPA;
- ◆ Develop and administer contracts for special monitoring needs such as *Cryptosporidium* in order to comply with federal rules;
- ◆ Develop and administer contracts to identify and evaluate impacts of emerging contaminants to help water systems prepare for new regulatory requirements;
- ◆ Contract for the development of an improved permit tracking system; and
- ◆ Contract for the development of an electronic sanitary survey.

Beginning in July 2012, the Department contracted with the University of Missouri to research the causes of disinfection by-product (DBP) formation at small community water systems and make recommendations. This is a two-phase process of extensive testing and analysis and development of solution to DBP problems. Achieving compliance is difficult for small systems because formation of DBPs is complicated and is specific to water chemistry and the treatment process. The first phase of the project is an evaluation of the system. University research staff provides recommendations to the system and in the second phase the water system implements

the recommendation(s). Three (3) or four (4) small systems will be researched and evaluated in each two-year study.

### *Capacity Development, Operator Certification and Source Water Protection*

The Department has also used a portion of this set-aside to fund staff who implement the Capacity Development Strategy, operator certification, and source water protection. The Safe Drinking Water Act requires states to have and implement a strategy to assist all public water systems with achieving and maintaining technical, managerial and financial capacity or lose 20 percent of their annual Drinking Water SRF capitalization grant. Missouri has had an EPA approved Capacity Development Strategy since September 14, 2000. Public Drinking Water Branch updated and revised the Capacity Development Strategy in 2010 and continues to use this set-aside to fund staff to implement and refine capacity development goals and objectives. Primarily the Local Assistance and Other Activities Set-aside is used to implement activities identified in the Capacity Development Strategy.

The Safe Drinking Water Act also requires all states to develop and implement an operator certification program for community and non-transient non-community water systems that meets federal requirements or lose 20 percent of their annual Drinking Water SRF capitalization grant. Missouri has had an EPA approved operator certification program since February 2002. A portion of this Public Water System Supervision set-aside supports the operator certification program. The set-aside funds staff who write, review, validate, and process exams; validate applicants' credentials; review and approve training courses; and implement and administer all other aspects of the operator certification program.

### **Local Assistance and Other State Programs**

The Safe Drinking Water Act allows states to set-aside up to 15 percent of the Drinking Water SRF capitalization grant for the following activities:

- ◆ Special loan programs for source water protection;
- ◆ Technical and financial assistance to public water systems as part of a Capacity Development Strategy; and
- ◆ Establish and implement a wellhead protection program under Section 1428 of the Safe Drinking Water Act.

For the period covered by this report, the Department set-aside 15 percent from the capitalization grant to support these activities.

### *Source Water Protection Loan Programs*

The Department has not used these funds to establish source water protection loan programs.

### *Wellhead Protection Programs*



The Department established the Abandoned Well Plugging Program in 2008 to provide funding to community water systems to plug abandoned drinking water wells that threaten or may threaten their source water supply. These wells provide a conduit for contaminants to enter groundwater. Ground water sources supply water for about 85 percent of Missouri's community water systems. Preventing contamination before it happens through proactive activities like plugging abandoned wells is more cost-effective than trying to clean up an aquifer after it has been contaminated or providing additional treatment at the system. In state fiscal year 2013 two (2) communities benefitted from this program for a total of 58 community water systems since the inception of the grant program in 2008. The Department also developed public outreach, information materials, and simplified the application form.

The Department also used this set-aside to provide source water protection grants to community water systems. Grants awarded through this program may be for ground water protection (wellhead program implementation) or surface water protection (Capacity Development Strategy implementation). In state fiscal year 2013, four (4) grants were awarded, for a total of 40 since the inception of the grant program in 2007. The Department also developed a source water protection newsletter and simplified the application form.

### *Capacity Development Strategy*

Throughout any given year the Department uses this funding as needed and as approved in the Capacity Development Strategy to assist public water systems with a variety of technical, managerial, and financial issues in order to assure that Missouri citizens and visitors to the state are provided safe drinking water.

Beginning in 2012, a significant use of this set-aside became operator certification and training vouchers. This set-aside replaced the Expense Reimbursement Grant as the funding source for operator training and certification vouchers. The Department issues drinking water training vouchers annually to nearly 1,500 community and non-transient non-community water systems serving 3,300 people or less. The vouchers can be used to pay for operator certification fees and eligible drinking water training fees. The water system determines which of its personnel can use the vouchers. This gives the systems the flexibility to manage the vouchers in a manner that will best meet their needs. Vouchers can be used for renewal training for existing operators or used for expenses related to a new person becoming certified.

Drinking water distribution systems receive \$625 and treatment systems receive \$950 in voucher funds. The amount of funds allocated to each system is determined by the system's classification (either Distribution or Treatment). A system's specific classification is based on several factors, including population, complexity of treatment, type of source water, and other factors. The system classification also determines the level of certification required for the chief operator.

Vouchers consist of forms and stickers. To use a voucher, the individual fills out the voucher form and affixes the appropriate dollar amount in voucher stickers. In state fiscal year 2013, 1,017 different certified operators representing 686 drinking water systems used vouchers. Uncertified individuals also used vouchers in an effort to become certified. Processed vouchers totaled \$258,595. This is a typical annual amount.

This set-aside also was used to provide funding for Engineering Services Grants, which assists water systems needing engineering report services. The Department provides this funding as a grant to help community water systems obtain an engineering report as a first step toward implementing changes that will help the system achieve and maintain technical, managerial and financial capacity, including compliance with the National Primary Drinking Water Regulations and the Missouri public drinking water regulations. The Local Assistance and Other State Programs Set-aside allows these grants to be provided to water systems greater than 10,000 in population. For a full description of the Engineering Services Grant program, which is funded by three different set-asides, please see the description provided for the Small System Technical Assistance set-aside.

Another significant use of this set-aside has been contracting for circuit riders. The Department's Public Drinking Water Branch and Regional Office staff provide assistance to public water systems with compliance, managerial and financial training needs, and the full spectrum of technical issues. The Public Drinking Water Branch supplements this assistance through a contract for circuit riders funded primarily by this set-aside. The circuit riders specialize in compliance assistance, water and energy efficiency, operator training, and capacity development issues. The Public Drinking Water Branch provides a list of systems needing assistance with specific issues and the circuit riders provide individual hands-on assistance and small group training.

In state fiscal year 2013, the Department funded approximately 3.5 full-time equivalent circuit riders from this set-aside. The contract specifies that expertise in operator certification, unaccounted for water loss and energy efficiency and capacity development issues are required. Each of the circuit riders have experience and expertise in these areas, and can assist systems with various needs. However, each circuit rider also has a focus area. The contract year runs from February to February each year and has one more annual renewal.

The operator certification circuit rider provided the following classes during calendar year 2012.

<b>Classes Provided by Operator Certification Circuit Rider in Calendar Year 2012</b>			
<b><u>Course Description</u></b>	<b><u>Month Offered</u></b>	<b><u># of Days</u></b>	<b><u># of Attendees</u></b>
Distribution (DS)	February	8	9
Drinking Water Treatment (DW)	February	8	0
Distribution and Drinking Water Treatment	February	10	7
Distribution	May	8	0
Drinking Water Treatment	May	8	0
Distribution and Drinking Water Treatment	May	10	9
Distribution	September	8	2
Drinking Water Treatment	September	8	0
Distribution and Drinking Water Treatment	September	10	8
Small Water System Operations (DS & DW)	October	1	7

Another of the Public Drinking Water Branch's contract circuit riders was fully engaged in providing water and energy efficiency assistance to public water systems. During calendar year 2012, this circuit rider located 102 leaks. Of those 102 leaks, 22 percent were promptly repaired. This resulted in a savings of approximately 34 million gallons of water and over \$17,000 in monthly electrical and chemical costs. This does not include other cost savings such as wear and tear on pumps, customer inconvenience, cost of equipment, materials and labor. Additional leaks may have been repaired but not reported.

Systems are strongly encouraged to repair leaks. The economic and environmental benefits are pointed out to the owners and operators, but ultimately it is a local decision. This circuit rider's assistance visits in calendar year 2012 are summarized in the following table.

WATER LOSS AND ENERGY CONSERVATION					
-151 total assistance events in FFY2012 (including 36 follow-ups) -104 different systems were assisted in FFY2012	87 leak location related visits			5	leak location -based on TMF survey
			→	4	leak location -state requested visits
		111 system requested visits	→	78	leak location - system requested visits
	59 water loss related visits			29	water loss -system requested visits
			→	15	water loss -based on TMF survey
			→	15	water loss -state requested visits
				4	drought related visits
				1	valve location
*all assistance events were on site visits in 2012					

Another circuit rider primarily provides assistance on technical, managerial and financial capacity issues. This circuit rider visited over 221 systems to offer and provide assistance with regard to water rate analysis, board and council planning and communication, water system planning, compliance, and related topics. The Public Drinking Water Branch focused the circuit rider's efforts on new systems, systems with violations, and systems that have difficulty obtaining resources to achieve and maintain technical, managerial, and financial capacity. This circuit rider's assistance visits are summarized in the table on the following page.

ASSISTANCE WITH CAPACITY DEVELOPMENT ISSUES					
-329 total assistance events  (including 127 follow-ups) -221 different systems were assisted	46 newly operational svstem visits	132 ETT related visits		32	newlv operational svstem visits (activated in last 3 years)
				14	ETT related visits - newlv operational
				112	ETT related visits - previously operational
				2	ETT - state requested visits
	58 svstem requested visits			4	ETT - svstem requested visits
				54	svstem requested visits - previously operational
				6	state requested visits - previously operational
				40	general follow up visits - previously operational
				45	in route visits - previously operational
				6	asset managemement related visits (new initiative in July)
				14	drought related visits
*42 of the total 329 svstem visits were related to rate studies					
**289 on site assistance and 42 off site assistance events were provided in 2012					

During the first half of federal fiscal year 2013, Public Drinking Water Branch also used a circuit rider to help small systems with Ground Water Rule compliance issues. Funding for this circuit rider ended in December 2012. Compliance assistance efforts were focused on providing technical assistance to systems using chlorination. One hundred eight (108) were provided assistance and 51 percent of systems providing permanent chlorine disinfection returned to compliance following technical assistance. Other circuit riders have provided technical assistance for chlorination requirements to a total of 36 additional public water systems assisted with this issue. Thirteen (13) of those systems also returned to compliance following technical assistance.

Regulatory Compliance Circuit Rider System Visit Summary			
119 systems were assisted as of 12/31/12		11	Assistance purpose other than chlorination
	108 systems provided assistance for chlorination requirements	24	Not providing permanent chlorine disinfection or have since closed down
		43	Chlorinating systems reporting residuals and maintaining residuals subsequent to assistance
		41	Chlorinating systems failing to report residuals and/or maintain residuals subsequent to assistance
*The funding for this circuit rider ended December 31,2012			

Other routine uses of this set-aside include funding staff to perform vulnerability assessments of public water systems, implement the Capacity Development Strategy, work with new community and non-transient non-community water systems on capacity development issues, research specific contaminant issues, and similar activities.

## Set-Aside Spending Plan

The Department submitted a spending plan to address the use of the remaining loan funds and the set-aside balance on February 2, 2013. EPA did accept this plan. The table below provides the details of the spending plan projected for state fiscal year 2013.

<b>Summary of State Fiscal Year 2013</b>	<b>Program Admin</b>	<b>State Program Mgmt</b>	<b>Technical Assistance</b>	<b>Local and Other</b>	<b>Set-Aside Total</b>
FY12 Ending Cash Balance	\$1,491,950	\$3,234,534	\$1,251,109	\$6,171,211	\$12,148,803
FY13 Actuals to Date					
Revenue	342,086	629,598	311,555	1,454,194	2,737,433
Expenditures	306,346	471,590	336,359	1,472,383	2,586,678
<b>November 30 Ending Cash Balance</b>	<b>1,527,690</b>	<b>3,392,542</b>	<b>1,226,305</b>	<b>6,153,023</b>	<b>12,299,559</b>
FY13 Project					
Revenue	351,834	1,105,202	35,405	1,148,006	2,640,447
Total Expenditures	428,813	1,928,454	199,258	1,821,737	4,378,262
Projected Cash Balance after Operations	\$1,450,711	\$2,569,289	\$1,062,452	\$5,479,292	\$10,561,744
	<b>Program Admin</b>	<b>State Program Mgmt</b>	<b>Technical Assistance</b>	<b>Local and Other</b>	<b>Set-Aside Total</b>
Contracts & Projects to Benefit Public Water Systems					
3-Party Engineering Contracts	500,000	0	771,902	1,189,325	2,461,228
Grants to Water Systems – Well Plugging/SW Protection	0	0	0	313,213	313,213
Technical Assistance to Water Systems	0	0	0	100,902	100,902
1. Operator Certification Training Voucher Costs (PSD)	0	0	0	250,000	250,000
1. Operator Certification Training Voucher EE Costs	0	0	0	100,000	100,000
1. Safe Water Eng Permit Tracker	0	36,500	0	0	36,500
2. Safe Water Information Field Tool	0	29,200	0	0	29,200
3. Disinfection ByProduct Removal Study	0	0	0	200,000	200,000
5. Source Water Protection & Well Plugging Educ Info	0	0	0	11,000	11,000
6. Increased Contractual Technical Assistance & Cap Dev	0	0	0	20,000	20,000
7. Development of Training Module – MO Cap Development	0	0	0	200,000	200,000
Comprehensive Performance Evaluation Training for Staff Engineers	0	90,000	0	0	90,000
<b>FY13 Ending Cash Balance</b>	<b>\$950,711</b>	<b>\$2,413,589</b>	<b>\$290,550</b>	<b>\$3,094,852</b>	<b>\$6,749,701</b>

The following table identifies the actual expenditures for the set-asides components and the actual set-aside balances as of June 30, 2013.

<b>Summary of State Fiscal Year 2013</b>	<b>Program Admin</b>	<b>State Program Mgmt</b>	<b>Technical Assistance</b>	<b>Local and Other</b>	<b>Set-Aside Total</b>
FY12 Ending Cash Balance	\$1,491,950	\$3,234,534	\$1,251,109	\$6,171,211	\$12,148,803
FY13 Project					
Revenue	693,920	1,734,800	346,960	2,602,200	5,377,880
Total Operating Expenditures	691,698	1,358,192	138,775	2,163,451	4,352,116
<b>Contracts &amp; Projects to Benefit Public Water Systems</b>					
3-Party Engineering Contracts	8,206	0	620,156	853,469	1,481,831
Grants to Water Systems – Well Plugging/SW Protection	0	0	0	57,425	57,425
Technical Assistance to Water Systems	0	0	0	0	0
1. Operator Certification Training Voucher Costs (PSD)	0	0	0	247,218	247,218
<b>Summary of State Fiscal Year 2013</b>	<b>Program Admin</b>	<b>State Program Mgmt</b>	<b>Technical Assistance</b>	<b>Local and Other</b>	<b>Set-Aside Total</b>
1. Operator Certification Training Voucher EE Costs	0	0	0	0	0
1. Safe Water Eng Permit Tracker	0	36,500	0	0	36,500
2. Safe Water Information Field Tool	0	29,200	0	0	29,200
3. Disinfection ByProduct Removal Study	0	0	0	58,722	58,722
5. Source Water Protection & Well Plugging Educ Info	0	0	0	0	0
6. Increased Contractual Technical Assistance & Cap Dev	0	0	0	26,101	26,101
7. Development of Training Module – MO Cap Development	0	0	0	0	0
Comprehensive Performance Evaluation Training for Staff Engineers	0	0	0	0	0
<b>FY13 Ending Cash Balance</b>	<b>\$1,485,966</b>	<b>\$3,545,442</b>	<b>\$839,138</b>	<b>\$5,367,025</b>	<b>\$11,237,570</b>

The set-aside plan submitted and approved by EPA projected the fund balance as of June 30, 2013 to be \$6,749,701. The actual spending detailed in the table above has the set-aside balance of \$11,237,570. The actual expenditures were \$4,487,869 short of the planned expenditures.

The Department has substantial plans in place which include the expansion of the engineering services grants which would increase set-aside expenditures significantly in state fiscal year 2014. The Department is in the process of identifying how to modify the spending plan submitted to EPA and whether or not to apply for the set-aside monies in the next capitalization grant application. The Department has the option to reserve the right to the set-aside monies in future years rather than request the set-aside now for the program administration, state program management or small technical assistance components. The local assistance and other state programs set-aside component may not be banked for use in future years.

## **IX. Maintaining Drinking Water SRF Financial Assistance Programs**

The Department operates a number of financial assistance programs for drinking water infrastructure.

### **Financial Assistance Programs**

#### **Direct Loans**

The Drinking Water SRF Direct Loan Program is the primary financial tool used by the Department to fund public drinking water improvements. For state fiscal year 2013, the Department reserved 69 percent of the annual capitalization grant for direct loans and grants (grants are discussed in the next paragraph). The subsidy rate for all loans awarded in state fiscal year 2013 was 70 percent of the market interest rate. In state fiscal year 2013, the Department awarded \$7,153,600 of direct loans to nine (9) different drinking water systems. These loans all have a 20 year term.

#### **Grants**

For state fiscal year 2013, the Drinking Water SRF capitalization grants require that not less than 30 percent of the capitalization grant shall be used to provide additional subsidies. For state fiscal year 2013, the Department reserved 30 percent (\$7,986,575) of the capitalization grants for additional subsidies in the form of Drinking Water SRF grants. Drinking Water SRF grant funds were awarded to non-disadvantaged communities' projects through a combination of 50 percent grant and 50 percent direct loan with a maximum grant of \$2 million per applicant. In state fiscal year 2013, the Department awarded \$6,398,733 of grants to eight (8) different drinking water systems.

### **Order of Priority for Distribution of Loan and Grant Funds**

For state fiscal year 2013, the Department developed written criteria to prioritize the ranking of projects for loans and grants so that the most serious problems were given the highest priority. Consistent with the Federal Safe Drinking Water Act, priorities are based on protection of public health, compliance and household affordability. The Safe Drinking Water Commission approves the criteria after public review. Further, it continued to be the Department's intention to provide priority of financial assistance to communities that could not otherwise afford conventional



financing. To meet this goal the Department used the following criteria listed in order of priority:

1. Projects serving disadvantaged communities on any fundable list based on priority ranking in the order of highest ranking;
2. Projects on the Very Small Community 20 percent Reserve Fundable List based on priority ranking;
3. Projects on the Small Community 15 percent Reserve Fundable List based on priority ranking; and
4. Projects on the General Community 65 percent Reserve Fundable List based on priority ranking.

Available capitalization grant funds, state match revenues, interest earned and grant funds for state fiscal year 2013 were allocated to new projects according to priority ranking. Projects that had a priority ranking too low to be funded were placed on a contingency list.

### **Project Reviews**

#### **Drinking Water SRF Loans and Grants**

The initial deadline date for receipt of new projects for Missouri's Drinking Water SRF Loan Program for state fiscal year 2013 was November 15, 2011. To maximize the use of available funds, late applications were accepted up to September 1, 2012. Solicitation was done through news releases and mailings to interested parties.

Initially, the Department reviewed all applications received to determine if the proposed project is an eligible activity and the applicant meets the financial requirements. Eligible projects were then priority ranked as described above and included in the state's Intended Use Plan. Those projects that are technically eligible but cannot meet the financial requirements of the SRF Loan Program are invited to participate in other state and federal loan and grant programs. Before loan closing, the Department will review the applicant's engineering documents, environmental documents, contracts and ordinances for compliance with state and federal requirements. The Department enters binding commitments and loan agreements after the applicants complete all requirements.

Section 640.107 of the Missouri Safe Drinking Water statute requires that eligible projects for Drinking Water SRF loans for systems serving less than 10,000 people shall be given priority consideration for no less than 35 percent of the available funds. The statute further states that eligible projects for loans for systems that serve 3,300 people or less are given priority consideration for at least 20 percent of the total available loan money.

The Department received its first Drinking Water SRF funds in federal fiscal year 1997. This included both the 1996 and 1997 capitalization grants, which were made available for applications received in state fiscal year 1998. The subsidy rate for Drinking Water SRF loans has changed over the years. The total available loan funds and the applicable subsidy rate for each state fiscal year are listed below:

<b>State Fiscal Year</b>	<b>Total Available Funds for Loans (unleveraged) in Millions of Dollars</b>	<b>Subsidy Rate</b>	<b>Total Available Funds for Loans (leveraged) in Millions of Dollars</b>
1998	\$9.7	33 1/3%	\$29
1999	\$10	33 1/3%	\$30
2000	\$52	33 1/3%	\$156
2001	\$52	33 1/3%	\$155
2002	\$52	50%	\$104
2003	\$36	50%	\$72
2004	\$44.8	70%	\$64
2005	\$28	70%	\$40
2006	\$21	70%	\$30
2007	\$21.1	70%	\$30.2
2008	\$27.9	70%	\$40
2009	\$44.5	70%	\$63.7
2010	\$95.9	70%	\$95.9 (not leveraged)
2011	\$50.7	70%	\$50.7 (not leveraged)
2012	\$70.6	70%	\$70.6 (not leveraged)
2013	\$124.1	70%	\$124.1 (not leveraged)

In state fiscal year 2013, the Department awarded nine (9) direct loans and eight (8) grants to nine (9) water systems for a total amount of \$13,552,333. Of the total amount for state fiscal year 2013, approximately 71 percent of the loan funds and 68 percent of the grant funds went to systems serving populations of less than 10,000.

Through state fiscal year 2013, the Department has awarded a cumulative total of 116 drinking water loans and 33 grants to 96 different community public water supply systems for a total of \$332,526,769. Of the 149 loans and grants awarded, 90 loans and 29 grants were awarded to water systems serving populations of less than 10,000. These 119 loans and grants totaled \$147,446,769 or approximately 44 percent of the total. Therefore, the amount of loan funds awarded to systems serving less than 10,000 is above the minimum 35 percent required by the Missouri Safe Drinking Law, and well above the 15 percent minimum required by Federal Safe Drinking Water Act. Exhibit 1 summarizes the leveraged and direct loans awarded since the beginning of the program.

Each loan recipient is an eligible community water system. Projects included expenditures of a type that facilitate compliance with the Safe Drinking Water Act and advance the public health purposes of the Safe Drinking Water Act.

The following tables summarize the loans awarded in state fiscal year 2013, including the need category related to each project.

Drinking Water SRF Loans Awarded in State Fiscal Year 2013						
Water System	Amount Awarded	Project Categories				
		Source	Treatment	Storage	Transmission/ Distribution	Other
Jefferson County Water Authority	Loan: \$751,000 Grant: \$751,000		X			
City of Poplar Bluff	Loan: \$1,324,000 Grant: 1,324,000	X			X	
City of Rogersville	Loan: \$682,000 Grant: \$559,113	X			X	
City of Desloge	Loan: \$782,000 Grant: \$782,000				X	
City of Warsaw	Loan: \$739,000 Grant: \$739,000				X	
Jefferson Co PWSD #8	Loan: \$260,000 Grant: \$260,000	X			X	
City of Linn	Loan: \$1,143,000 Grant:\$1,117,620	X		X	X	
Jefferson Co PWSD #12	Loan: \$866,000 Grant: \$866,000				X	
City of Tipton	Loan: \$606,600				X	
Total for State Fiscal Year 2013	Loan: \$7,153,600 Grant: \$6,398,733					

The following tables provide a description of Drinking Water SRF projects awarded in state fiscal year 2013.

<b>Drinking Water SRF Project Approved in State Fiscal Year 2013</b>	
Water System Name Award Amounts \$	Project Description
Jefferson County Water Authority \$1,502,000	The project addresses the need for rehabilitation and improvement to the treatment plant. The project includes replacing both the high and low pump flow meters, replacing aerator, replacing filter media, upgrading the filter backwash system, cleaning of the sludge holding basins, converting one of the sludge holding basins to sludge drying beds, and adding an ammonia feed system to convert chlorine to chloramine.
City of Poplar Bluff \$2,648,000	The project addresses the need for additional source water capacity and distribution. The project includes the installation of a new raw water intake and pumps, clearwell improvements, a new booster pump station and the addition of approximately 6,000 feet of twelve inch diameter HDPE pipe.
City of Rogersville \$1,241,113	The project addresses the need for additional source water capacity and distribution. The project includes the purchase of an existing well; the rehabilitation of the well house and adding a fully automated system, known as a Supervisory Control and Data Acquisition, to Well Number 1; the addition of approximately 11,000 feet of ten inch diameter PVC pipe to connect the well, and the replacement of old cast-iron pipe with approximately 4,500 feet of eight inch diameter PVC pipe.
City of Desloge \$1,564,000	The project addresses the need to replace old obsolete cast-iron drinking water distribution lines throughout the city with approximately 3,000 feet of ten inch diameter PVC pipe; approximately 12,500 feet of eight inch diameter PVC pipe, approximately 7,000 of six inch diameter PVC pipe, and approximately 1,400 feet of two inch diameter PVC pipe.
City of Warsaw \$1,478,000	The project addresses the need to replace the old existing distribution lines with approximately 6,000 feet of eight inch diameter PVC pipe.
Jefferson Co PWS #8 \$520,000	The project addresses the need to increase the existing well capacity to meet the maximum drinking water demand for the District through the year 2028, distribution improvements consisting of approximately 3,200 feet of eight inch diameter PVC pipe to address flow and pressure problems and modifications to the existing booster pump station.
City of Linn \$2,260,620	The project addresses the need for additional source water capacity and water storage capacity. This includes the addition of a new well capable of producing 350 gallons per minute, the addition of a new 200,000 gallon elevated storage tank, the replacement of old existing water lines with approximately 11,000 feet of six inch and ten inch diameter PVC pipe.

Water System Name Award Amounts \$	Project Description
Jefferson Co PWSD #12 \$1,732,000	This project addresses the replacement and construction of water mains and improvements along US Highway 61 from the Water Supply District Office to Airport Road and a water main extension at the intersection of Interstate 55 and US Highway 61. The project includes approximately 19,000 feet of twelve, ten, eight and four inch diameter PVC pipes.
City of Tipton \$606,000	This project addresses the need to replace old existing distribution lines with approximately 2,900 feet of eight inch PVC pipe, 7,000 feet of six inch PVC pipe, and 120 feet of two inch diameter PVC pipe.

## **X. EPA Recommendation on Performance Evaluation Report/Annual Program Review**

### **Annual Program Review – State Fiscal Year 2012**

Staff from EPA Region VII conducted an on-site program evaluation of the state fiscal year 2012 SRF programs from November 27 to November 29, 2012. The program evaluation report included the following highlights:

- ◆ The Drinking Water SRF Program received an unqualified opinion in the 2012 audit report.
- ◆ A substantial amount of the review time was spent discussing unliquidated obligations (ULO) and timely and expeditious (T&E) use of funds. EPA considered the discussion on the subjects as time well spent. The ULO and T&E use of funds is discussed in further detail in Section III A1 of the program evaluation report.
- ◆ The Department agreed during the review and at the exit conference, to provide a revision to the November 27, 2012, letter providing a detailed plan for use of the \$32 million loan fund and a detailed workplan that addresses the \$12 million set-aside balance. EPA received the Department's revision dated February 2, 2013, which included plans for the use of the remaining loan funds and the set-aside balance and EPA has accepted this plan.
- ◆ Missouri's Drinking Water SRF is a financially sustainable program.

Recommendations and observations of the Missouri state fiscal year 2012 review are listed below:

1. EPA received the Department's written correspondence dated February 1, 2013 which included plans for use of the \$32 million ULOs and for the \$12.5 million loan funds for set-asides. Also included was the Department's response to EPA's comments on the biennial report. We accept the Department's plan for the use of the ULOs and the loan funds for set-asides. The Department provided an addendum to the biennial report and it has been accepted. The Department agreed to include the information in the addendum in subsequent annual reports.

2. The Department's SRF management involvement with the day-to-day operations of the SRF program has contributed to the successful implementation of the Drinking Water SRF program.
3. While the suite of financial indicators reflect a strong, sustainable program, the loan pace is 14 percent below the national average. As previously discussed with the Department, once more loans are made, this indicator will improve.
4. Attention to detail was noted in the processing of reimbursement requests. No erroneous payments were found during the cash draw testings.

### **ARRA Review – November 2012**

Staff from EPA Region VII conducted an on-site program evaluation of the ARRA SRF program from November 27 to November 29, 2012. The program evaluation report included the following conclusion:

1. Missouri was found to be in compliance with ARRA requirements and to be implementing an effective ARRA program.
2. All project files were organized. The few issues discovered with missing documentation or signage on ARRA project sites was quickly corrected.

## **XI. Policy Summary**

The Department has implemented regulations and policies to ensure the long term fiscal health of the Drinking Water SRF, attain and maintain compliance with the Safe Drinking Water Act and carry out other provisions of the law. The Department protects the financial health of the Drinking Water SRF by reviewing the creditworthiness of applicants, attaining proper surety and cross-collateralization.

- ◆ Water Protection Program's Financial Assistance Center and the Environmental Improvement and Energy Resources Authority review the creditworthiness of applicants to make sure they can safely meet their obligations in the loan program.
- ◆ As a form of surety, publicly-owned entities must offer revenue or general obligation bonds. Privately-owned entities may offer other appropriate forms of surety. To date, the Department has not entered into loan agreements with privately-owned systems.
- ◆ The Drinking Water SRF is cross-collateralized with the Clean Water SRF as authorized by federal (P.L. 105-66) and state law (section 655.122, RSMo).

The Department attains and maintains compliance with the Safe Drinking Water Act by setting priorities and reviewing projects.

- ◆ As previously addressed, priorities for projects funded through the loan program are approved annually by the Safe Drinking Water Commission after public review. The resulting criteria express priorities as a point system by which the Department ranks loan applicants. The Department awards points to projects that address Safe Drinking Water Act compliance, public health, affordability on a per household basis and security issues.
- ◆ The Department reviews all applicants for priority and creditworthiness before issuing its Intended Use Plan. Before loan closing, the Department will review the applicant's engineering documents, environmental documents, contracts, bond covenants and ordinances for compliance with state and federal requirements.

The Department's review achieves other purposes of the law by providing technical assistance and coordinating with other funding programs.

- ◆ The funding order of projects may not be identical to the fundable priority ranking in the annual Intended Use Plan. Readiness to proceed is an important factor; however, the general order of project ranking will be followed to the extent a project's sponsor is ready to proceed. The Department encourages projects to proceed in a timely manner.
- ◆ The Department, with approval of the Safe Drinking Water Commission, may by-pass any project on the fundable priority list that is not, in the opinion of the Department, making satisfactory progress toward satisfying requirements for Drinking Water SRF assistance. Rules governing by-pass procedures appear in 10 CSR 60-13.020(3)(A).

Any project on the fundable priority list may be by-passed if the applicant fails to submit the documents required for Drinking Water SRF assistance at least 60 days prior to the beginning of the quarter for which the assistance is anticipated. Furthermore, the Department may develop schedules to determine whether a Drinking Water SRF project is making satisfactory progress. A project may be by-passed for failure to meet the schedule.

A project that is by-passed will be removed from the fundable priority list, and if the application is still valid, will be placed on a project list, in priority order, for funding consideration in the next federal fiscal year.

- ◆ The Department uses authorized set-asides to fund staff that provides technical assistance related to Safe Drinking Water Act compliance and the technical, managerial and financial capacity of water systems.
- ◆ The Department coordinates with other agencies that fund water system improvements including the Missouri Department of Economic Development, which operates the Community Development Block Grants Program, U.S. Department of Agriculture Rural Development and the Department's state-funded grant program. The Department is continuing to try to address the needs of disadvantaged communities by supplementing Drinking Water SRF loans with other sources of funding, especially state grants.

## **XII. State Environmental Review Process**

The Department has reviewed each project according to the state environmental review process described in 10 CSR 60-13.030. It has issued findings of no significant impact for each project.

## **XIII. State Match**

In accordance with federal Safe Drinking Water statutes, states are required to provide a match equal to 20 percent of the total capitalization grant. Each state must deposit its match on or before the date of the grant payment. Further, it must make binding commitments equal to the grant minus set-asides plus match within one (1) year of receiving the grant payment, except for the grant of federal fiscal year 1997. Through state fiscal year 2003, the Department used general revenue funds to provide the required 20 percent match.

Beginning in state fiscal year 2004, state match was provided through the proceeds of the sale of Environmental Improvement and Energy Resources Authority bonds. Environmental Improvement and Energy Resources Authority bonds are sold to generate 100 percent of the project costs and an appropriate percentage of those bonds are clearly identified as state match. The Department submitted to the EPA for approval an amendment to the Drinking Water SRF Operating Agreement (by and between the Department and the EPA), to allow the use of the state match bonds. The Department received approval for the change on October 28, 2003, and has continued to use this approach for provided state match in state fiscal year 2013.

In state fiscal year 2012, \$7,160,162 was applied toward the Drinking Water SRF state match from the use of state funds for rural water grants. During the state fiscal year 2007 legislative session, a bill was passed that enabled the state to sell up to \$50 million in bonds to be used for grants and loans to small communities for water and wastewater projects. The bonds were sold in November of 2007, with approximately \$15 million allocated to drinking water projects. The Department requested and received approval from EPA Region VII to apply the amount that was expended for rural water grants toward Drinking Water state match. These rural water grants expenditures were allowed because the projects qualified for Drinking Water SRF funding.

## **XIV. Details of Activities**

### **Drinking Water SRF Regulations**

The Department, through the Safe Drinking Water Commission, promulgated all necessary regulations for the Drinking Water SRF loan fund as of April 30, 1999. The rules were amended in 2001 and 2009 to include ARRA provisions.



### **Cash Draw Ratio (Proportionality)**

Missouri used a cash flow model for the Drinking Water SRF program during state fiscal year 2013. The federal capitalization grant was not used as security for the state match bonds. In fiscal year 2013, the state match funds were utilized first before drawing any federal funds from federal fiscal year 2012 capitalization grants. Once state match funds were utilized, the cash draws were 100 percent federal funds. With taking the state match funds into consideration, the cash draw ratio was 83.33 percent federal funds and 16.67 percent state match. This process followed EPA memorandum, Clarification of Cash Draw Rules for Leveraged SRF Programs (August 26, 2011).

### **Green Project Reserve**

Staff continues to discuss the GPR requirements with SRF applicants and consulting engineers to encourage the utilization of GPR components in proposed projects. The costs associated with GPR components are being applied to the oldest capitalization grant first until such time as the GPR requirement for that grant has been satisfied. The following projects were identified to have GPR project components and the associated costs.

- *Linn received a SRF Loan and a SRF Grant totaling \$2,260,620 of which \$300,000 was for GPR qualified under the business case.*
- *Tipton received a SRF Loan totaling \$606,600 of which \$606,600 was for GPR qualified under the business case.*
- *Warsaw received a SRF Loan and a SRF Grant totaling \$1,478,000 of which \$1,478,000 was for GPR qualified under the categorical case.*

### **Assembled Necessary Staff**

The Department has assembled the staff necessary to implement the Drinking Water SRF. The Drinking Water SRF administrative, financial and technical review staff for the Drinking Water Leveraged Loan Program is primarily located in the Water Protection Program's Financial Assistance Center. Staff administering the programs and activities funded by the set-aside portion of the Drinking Water State Revolving Capitalization Grants is primarily located in the Water Protection Program's Public Drinking Water Branch. The Water Protection Program coordinates with the Environmental Improvement and Energy Resources Authority, a state environmental financing agency, to implement the Leveraged Loan Program. Staff in the Department's regional offices provides assistance with Drinking Water SRF and primacy-related field activities.

## **Coordination with Other Funding Programs**

The Department coordinates with other agencies that fund water system improvements including the Missouri Department of Economic Development, which operates the Community Development Block Grants Program, the U.S. Department of Agriculture Rural Development, and the Department's state-funded grant program. The Department tries to address the needs of disadvantaged communities by supplementing Drinking Water SRF loans with other sources of funding, especially state grants.

## **Grant Conditions Compliance**

The Department continues to comply with all grant conditions. The following sections address specific compliance issues.

- ◆ **Lobbying.** Lobbying by grant recipients is restricted by Section 607(A) of P.L. 96-74 and by the Anti-Lobbying Act, Section 319 of P.L. 101-121. The Department has not engaged in illegal lobbying and has not used grant funds to support lobbying.
- ◆ **Debarment.** The Department has agreed to comply with EPA's policy on debarment and suspension under assistance, loan and benefit programs. The Department has not solicited subagreements from debarred or suspended parties and has included notice of this policy in solicitations as required.
- ◆ **Disadvantaged business enterprises.** The Department has agreed to comply with EPA's Program for Utilization of Small, Minority, and Women's Business Enterprises. It has agreed to negotiate fair share goals. The Department and all loan recipients have included in their bid documents the fair share goals, followed the six (6) affirmative steps stated in 40 CFR 31.36(e) and 40 CFR 35.3145(d), and submitted reports on disadvantaged business enterprise use as required. MBE/WBE reports were submitted to EPA for the quarters covering state fiscal year 2013. Presidential Executive Order 11246, issued in 1980, set a goal for minority business enterprises (MBE) and women's business enterprises (WBE), expressed the percent of 14.7 and 6.9 respectively. The tables below illustrate our status towards meeting the goals set for MBE/WBE.

<b>Assistance Activity for SRF Loan Recipients State Fiscal Year 2013</b>		
	<b>MBE</b>	<b>WBE</b>
Construction	0	0
Equipment	0	0
Services	\$106,325	0
Supplies	\$268,926	0
Total	\$375,251	0
Percent	3.34%	0%
Goal	14.7%	6.9%

- ◆ **Drinking Water SRF and quarterly project reports.** The Department has agreed to submit an annual report on the state of the Drinking Water SRF Program. This report fulfills the requirement of the annual report. The Department has submitted quarterly project reports to EPA by e-mail.
- ◆ **Use of recycled paper.** The Department has agreed to submit required reports to EPA on recycled paper. This report is printed on recycled paper.
- ◆ **Indirect costs.** The Department has agreed to charge indirect costs in the year that they are expended and in accordance with the negotiated indirect cost agreement. The Department has complied with the agreement and charged indirect costs in the years they were expended.
- ◆ **Federal cross-cutters.** The Department has agreed to comply with all federal cross-cutters identified in Appendix A of the Drinking Water SRF Program Guidelines. While loan recipients do not always receive assistance directly from the capitalization grant, the Department has ensured, by conditions in the loan agreements, that cross-cutting authority apply to projects equating to at least the amount of the capitalization grants.

## **XV. MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following is a discussion and analysis of the financial activities for the Missouri Department of Natural Resources' (Department) Drinking Water State Revolving Fund (SRF) for the fiscal year ended June 30, 2013. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the Notes to the Financial Statements.

### **FINANCIAL HIGHLIGHTS**

The assets of the program exceeded liabilities at the close of the most recent fiscal year by \$160,093,013 (net assets). Net assets consist of federal capitalization grant contributions of \$161,911,406, state match contributions of \$15,504,549, transfers to the Clean Water SRF program of \$10,000,000, and a net loss of \$7,322,942 since the inception of the program. All net assets of the program are restricted. The program's enabling legislation and related regulations require that all money in the fund may be used only for purposes of the program.

Total assets decreased from \$358,878,720 at June 30, 2012 to \$346,681,606 at June 30, 2013. The assets of the enterprise funds decreased \$11,327,907 while the assets of the agency fund decreased \$869,207. Explanations for these changes are detailed in the Financial Analysis section.

Total liabilities decreased \$13,634,519. The majority of the decrease was from a decrease in bonds payable. Bonds payable decreased \$12,599,150 because the program has changed from primarily a leveraged loan program to a direct loan program, so no new bonds were issued during the year.

During the state fiscal year, the program's total net assets increased \$1,437,405. Capital contributions from the Environmental Protection Agency (EPA) totaled \$13,499,241. However, that was offset by a \$10,000,000 transfer of recycled funds to the Clean Water SRF program and a current year loss of \$2,061,836. This loss of income is the result of the program making grant payments totaling \$3,534,236 during the year. Excluding grant payments, the program had a net income of \$1,472,400.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Department's Drinking Water SRF basic financial statements. The program's basic financial statements are comprised of two components: 1) proprietary and fiduciary fund financial statements, and 2) notes to the financial statements.

The proprietary and fiduciary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, a Statement of Cash Flows and a Statement of Fiduciary Net Assets.

- The Statement of Net Assets presents the assets, liabilities and net assets of the program. Assets consist of cash and cash equivalents, investments, interest receivable from loans and investments, administrative fees receivable, EPA set-aside grant funds receivable and loans receivable. Liabilities include accounts payable, deferred revenue, bonds payable and bond interest payable. Net assets are the federal capitalization grant contributions, the state match contributions, and the excess earnings of the program's operations since inception.
- The Statement of Revenues, Expenses and Changes in Fund Net Assets presents information showing how the program's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.
- The Statement of Cash Flows is provided to identify the sources and the uses of cash during the fiscal year and to demonstrate that the program has sufficient cash to meet its obligations.
- The Statement of Fiduciary Net Assets provides information about the program's agency fund. The agency fund consists of the assets and liabilities related to the loan funds that are held at trustee banks on behalf of the loan participants.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the fund financial statements.

## **FINANCIAL ANALYSIS**

### **Loan Fund:**

The following section displays the current and prior year financial statements of the loan fund and describes some of the major reasons for the changes.

<u>Loan Fund Net Assets</u>			
	2013	2012	Percent Change
Current assets	\$ 55,597,514	\$ 57,878,836	(4%)
Non-current assets	274,396,279	284,476,051	(4%)
Total assets	329,993,793	342,354,887	(4%)
Current liabilities	17,343,626	17,042,792	2%
Non-current liabilities	162,037,533	175,200,745	(8%)
Total liabilities	179,381,159	192,243,537	(7%)
Net assets	\$ 150,612,634	\$ 150,111,350	0%

The total assets of the loan fund decreased four percent. This was mainly due to a decrease in loans receivable of \$7,828,997. Total liabilities decreased seven percent because of a decrease in bonds payable of \$12,599,150.

Changes in Loan Fund Net Assets

	2013	2012	Percent Change
Operating revenues	\$ 8,164,218	\$ 9,244,313	(12%)
Operating expenses	3,688,824	2,751,645	34%
Operating income	4,475,394	6,492,668	(31%)
Non-operating revenues (expenses)	(3,974,110)	3,500,466	(214%)
Increase in net assets	501,284	9,993,134	(95%)
Net assets, beginning of year	150,111,350	140,118,216	7%
Net assets, end of year	<u>\$ 150,612,634</u>	<u>\$ 150,111,350</u>	<u>0%</u>

The net assets of the loan fund increased \$9,993,134 in 2012 but increased only \$501,284 in 2013. The reason for the dramatic change was the \$10,000,000 transfer of recycled funds to the Clean Water SRF program.

Loan Fund Cash Flows

	2013	2012	Percent Change
Cash flows from operating activities	\$ 12,483,096	29,388,048	(58%)
Cash flows from noncapital financing activities	(17,251,050)	(9,840,132)	75%
Cash flows from investing activities	1,722,098	629,880	173%
Increase (decrease) in cash and cash equivalents	(3,045,856)	20,177,796	(115%)
Cash and cash equivalents, beginning of year	34,421,788	14,243,992	142%
Cash and cash equivalents, end of year	<u>\$ 31,375,932</u>	<u>\$ 34,421,788</u>	<u>(9%)</u>

A number of factors caused a significant change in the loan fund cash flow numbers between state fiscal years 2012 and 2013.

1. Repayments received on loans decreased \$13,980,185 because of the 1998B Cape Girardeau loan payoff in 2012.
2. Bonds issued decreased \$11,088,179 as no new bonds were issued in 2013.
3. Bond principal retired decreased \$10,995,000 because there was a refunding in 2012 (series 2011A) and none in 2013.
4. There was a transfer of \$10,000,000 of recycled funds to the Clean Water SRF program in 2013 and there were no transfers in 2012.

### **Administrative Fee Fund:**

The following section displays the current and prior year financial statements of the administrative fee fund and describes some of the major reasons for the changes.

#### Administrative Fee Fund Net Assets

	2013	2012	Percent Change
Current assets	\$ 9,480,379	\$ 8,544,258	11%
Non-current assets	0	0	0%
Total assets	9,480,379	8,544,258	11%
Current liabilities	0	0	0%
Non-current liabilities	0	0	0%
Total liabilities	0	0	0%
Net assets	\$ 9,480,379	\$ 8,544,258	11%

The 11 percent increase in administrative fee fund net assets is a result of administrative fee revenues and interest earnings that are not offset by any administrative expenses. Administrative costs are currently being paid from a portion of the EPA grants through the set-aside fund, so the administrative fee fund cash continues to build. This will ensure sufficient funding for administrative expenses once the grant funding ends.

#### Changes in Administrative Fee Fund Net Assets

	2013	2012	Percent Change
Operating revenues	\$ 883,844	\$ 947,286	(7%)
Operating expenses	0	18,453	(100%)
Operating income	883,844	928,833	(5%)
Non-operating revenues (expenses)	52,277	48,314	8%
Increase in net assets	936,121	977,147	(4%)
Net assets, beginning of year	8,544,258	7,567,111	13%
Net assets, end of year	\$ 9,480,379	\$ 8,544,258	11%

There were no dramatic changes in administrative fee fund net assets. There was a decrease of \$63,442 in administrative fee revenue and a decrease of \$18,453 in grant payments.

As mentioned earlier, the net assets continue to grow because administrative expenses are paid with set-aside capitalization grant funds. The accumulation of net assets in the administrative fee fund is needed in order to ensure that there will be sufficient funds to cover administration costs once the set-aside grant funding ends.

Administrative Fee Fund Cash Flows

	2013	2012	Percent Change
Cash flows from operating activities	\$ 919,914	\$ 977,315	(6%)
Cash flows from noncapital financing activities	0	0	0%
Cash flows from investing activities	55,502	42,852	30%
Increase in cash and cash equivalents	975,416	1,020,167	(4%)
Cash and cash equivalents, beginning of year	7,806,096	6,785,929	15%
Cash and cash equivalents, end of year	<u>\$ 8,781,512</u>	<u>\$ 7,806,096</u>	<u>12%</u>

Administrative fee fund cash increased \$975,416 during the year as administrative fees and investment interest were received but no administrative expenses were paid from the fund.

**Set-aside Fund:**

The following section displays the current and prior year financial statements of the set-aside fund and describes some of the major reasons for the changes:

Set-Aside Fund Net Assets

	2013	2012	Percent Change
Current assets	\$ 1,456,849	\$ 1,374,748	6%
Non-current assets	41,604	26,639	56%
Total assets	1,498,453	1,401,387	7%
Current liabilities	1,467,719	1,380,622	6%
Non-current liabilities	30,734	20,765	48%
Total liabilities	1,498,453	1,401,387	7%
Net assets	<u>\$ 0</u>	<u>\$ 0</u>	<u>0%</u>

The increase in assets and liabilities of the set-aside fund reflects the increase in the amount of set-aside expenditures that had not yet been reimbursed by draws from the EPA capitalization grants. On June 30, 2013, two (2) months of expenditures had not been reimbursed.

Changes in Set-aside Fund Net Assets

	2013	2012	Percent Change
Operating revenues	\$ 6,196,275	\$ 5,748,180	8%
Operating expenses	6,196,275	5,748,180	8%
Operating income	0	0	0%
Non-operating revenues (expenses)	0	0	0%
Increase in net assets	0	0	0%
Net assets, beginning of year	0	0	0%
Net assets, end of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>0%</u>



There was a \$448,095 increase in operating revenues and operating expenses. Salaries and benefits expense decreased \$228,813, indirect costs decreased by \$187,639, and other administrative expenses increased \$859,255. These increases in operating expenses resulted in a corresponding increase in EPA operating grant revenue.

Set-aside cash flows:

The set-aside fund does not have a cash balance, as any cash paid out is offset by cash coming in, resulting in the yearly cash provided by operating activities of \$0.

### **Agency Fund:**

The following section displays the current and prior year assets and liabilities of the agency fund:

<u>Agency Fund Net Assets</u>			
	<u>2013</u>	<u>2012</u>	<u>Percent Change</u>
Assets	\$ 5,708,981	\$ 6,578,188	(13%)
Liabilities	5,708,981	6,578,188	(13%)
Net assets	<u>\$ 0</u>	<u>\$ 0</u>	<u>0%</u>

The agency fund assets and liabilities decreased 13 percent because the program is now funding new loans on a payment by payment basis instead of placing 100 percent of the loan funds at a trustee bank at the time of the loan closing. Therefore, new loans do not have money sitting in the construction loan funds at the trustee bank and older loans have continually shrinking construction loan fund balances as those projects get closer to completion.

# SRF Binding Commitments

State Fiscal Years 1997 through 2013

Project Name	Population Served	Project Number	Amount	Closing Date
<b>Funding Type: ARRA GRANT</b>				
CAMERON**	2,950	DW291193-03G	\$1,390,500.00	10/22/2009
CLINTON COUNTY PWSD #3**	1,310	DW291227-01G	\$1,100,000.00	11/06/2009
AVA MUNICIPAL WATER SYSTEM**	3,021	DW291214-01G	\$1,445,400.00	11/10/2009
CLARENCE CANNON	42,000	DW291070-03G	\$2,000,000.00	11/17/2009
DREXEL**	1,115	DW291236-01G	\$2,000,000.00	11/17/2009
ROCKAWAY BEACH**	577	DW291230-01G	\$862,000.00	12/07/2009
MONROE COUNTY PWSD #2*	6,500	DW291213-01G	\$1,065,250.00	12/10/2009
ADRIAN*	4,420	DW291245-01G	\$473,800.00	12/21/2009
PILOT GROVE**	723	DW291232-01G	\$505,000.00	12/21/2009
WESTON**	1,631	DW291220-01G	\$2,033,300.00	12/21/2009
HARRY S TRUMAN PWSD #2*	6,000	DW291239-01G	\$1,172,000.00	12/22/2009
CAPE GIRARDEAU	36,472	DW291010-03G	\$1,000,000.00	12/28/2009
NEWBURG MUNICIPAL WATER SYSTEM**	474	DW291229-01G	\$162,200.00	12/29/2009
KING CITY**	1,500	DW291265-01G	\$597,300.00	12/30/2009
LINN CREEK**	280	DW291223-01G	\$916,100.00	01/08/2010
STE GENEVIEVE*	4,480	DW291281-01G	\$781,440.00	01/08/2010
CLAY COUNTY PWSD #8**	1,953	DW291235-01G	\$723,000.00	01/11/2010
COLE COUNTY PWSD #4**	1,100	DW291208-02G	\$324,000.00	01/15/2010
WARDSVILLE**	976	DW291218-01G	\$396,862.00	01/26/2010
	<b>19</b>		<b>\$18,948,152.00</b>	
<b>Funding Type: ARRA LOAN</b>				
CAMERON**	2,950	DW291193-03L	\$1,390,500.00	11/02/2009
AVA MUNICIPAL WATER SYSTEM**	3,021	DW291214-01L	\$1,445,400.00	11/17/2009
CLARENCE CANNON	42,000	DW291070-03L	\$2,390,000.00	11/23/2009
DREXEL**	1,115	DW291236-01L	\$2,368,000.00	11/23/2009
CLINTON COUNTY PWSD #3**	1,310	DW291227-01L	\$1,100,000.00	11/25/2009
ROCKAWAY BEACH**	577	DW291230-01L	\$862,000.00	12/09/2009
MONROE COUNTY PWSD #2*	6,500	DW291213-01L	\$1,065,200.00	12/14/2009
PILOT GROVE**	723	DW291232-01L	\$505,000.00	12/23/2009
ADRIAN*	4,420	DW291245-01L	\$473,800.00	12/29/2009
HARRY S TRUMAN PWSD #2*	6,000	DW291239-01L	\$1,172,000.00	12/29/2009
WESTON**	1,631	DW291220-01L	\$2,033,400.00	12/29/2009
KING CITY**	1,500	DW291265-01L	\$199,100.00	01/06/2010
LINN CREEK**	280	DW291223-01L	\$305,300.00	01/12/2010
STE GENEVIEVE*	4,480	DW291281-01L	\$781,300.00	01/12/2010
CLAY COUNTY PWSD #8**	1,953	DW291235-01L	\$723,000.00	01/14/2010
CAPE GIRARDEAU	36,472	DW291010-03L	\$1,000,000.00	01/15/2010
NEWBURG MUNICIPAL WATER SYSTEM**	474	DW291229-01L	\$162,200.00	01/19/2010
COLE COUNTY PWSD #4**	1,100	DW291208-02L	\$324,000.00	01/21/2010
WARDSVILLE**	976	DW291218-01L	\$396,700.00	01/28/2010
	<b>19</b>		<b>\$18,696,900.00</b>	
<b>Funding Type: DIRECT FORTY % MATCH LOAN SRF</b>				
GLASGOW, CITY OF**	1,263	DW291125-01	\$1,000,000.00	12/05/2002
MARSHFIELD, CITY OF*	5,720	DW291148-01	\$3,650,000.00	03/27/2003
TRI-COUNTY WATER AUTHORITY	19,000	DW291181-01	\$9,848,500.00	02/25/2005
	<b>3</b>		<b>\$14,498,500.00</b>	
<b>Funding Type: DIRECT INTERIM LOAN SRF (Paid off by Leveraged Loan)</b>				
GLASGOW, CITY OF**	1,263	DW291125-01	(\$1,000,000.00)	04/09/2003
MARSHFIELD, CITY OF*	5,720	DW291148-01	(\$3,650,000.00)	11/20/2003
TRI-COUNTY WATER AUTHORITY	19,000	DW291181-01	(\$9,848,500.00)	05/19/2005
	<b>(3)</b>		<b>(\$14,498,500.00)</b>	

# SRF Binding Commitments

State Fiscal Years 1997 through 2013

Project Name	Population Served	Project Number	Amount	Closing Date
<b>Funding Type: DIRECT LOAN SRF</b>				
ADRIAN, CITY OF*	4,420	DW291107-01	\$4,163,000.00	12/03/2007
SULLIVAN COUNTY PWSD #1*	4,340	DW291212-01	\$2,900,000.00	04/14/2009
PLATTE COUNTY PWSD #8**	1,101	DW291273-01	\$444,800.00	11/17/2009
		<b>3</b>	<b>\$7,507,800.00</b>	
<b>Funding Type: LEVERAGED LOAN SRF</b>				
CAMERON, CITY OF	11,000	DW291008-01	\$3,300,000.00	12/02/1998
CAPE GIRARDEAU, CITY OF	38,509	DW291010-01	\$25,495,000.00	12/02/1998
LOUISIANA, CITY OF*	4,000	DW291025-01	2,315,000.00	06/03/1999
MOSCOW MILLS-NEW ELEVATED WATER TANK **	2,600	DW291032-01	365,000.00	12/02/1999
RAY COUNTY PWSD #2	16,000	DW291034-01	3,955,000.00	12/02/1999
BOONVILLE, CITY OF*	7,095	DW291003-01	5,110,000.00	04/12/2000
CAMDEN COUNTY PWSD #2**	691	DW291007-01	700,000.00	04/12/2000
HALLSVILLE, CITY OF**	1,200	DW291053-01	825,000.00	04/12/2000
JACKSON DIST. SYSTEM IMPROVEMENTS 01*	9,256	DW291020-01	995,000.00	04/12/2000
MARCELINE, CITY OF **	2,645	DW291026-01	4,000,000.00	04/12/2000
PERRYVILLE, CITY OF*	6,993	DW291062-01	8,860,000.00	04/12/2000
CLARENCE CANNON WHOLESALE WC*	4,172	DW291070-01	4,015,000.00	11/21/2000
JACKSON DIST. SYSTEM IMPROVEMENTS 02*	9,256	DW291020-02	1,895,000.00	11/21/2000
SWEET SPRINGS**	1,620	DW291040-01	445,000.00	11/21/2000
UNIONVILLE, CITY OF **	1,989	DW291041-01	455,000.00	11/21/2000
OZARK, CITY OF*	9,159	DW291089-01	975,000.00	04/18/2001
RAY COUNTY PWSD #2	16,000	DW291117-01	790,000.00	04/18/2001
RICHMOND*	6,675	DW291071-01	3,525,000.00	04/18/2001
VERNON COUNTY PWSD #2**	1,100	DW291069-01	1,005,000.00	04/18/2001
BUTLER, CITY OF*	8,555	DW291046-01	5,000,000.00	11/20/2001
DUNKLIN COUNTY PWSD#3**	1,764	DW291110-01	335,000.00	11/20/2001
FESTUS, CITY OF	10,470	DW291051-01	1,885,000.00	11/20/2001
GARDEN CITY**	1,390	DW291073-01	730,000.00	11/20/2001
JEFFERSON COUNTY WATER AUTHORITY	10,470	DW291121-01	10,435,000.00	11/20/2001
KEARNEY, CITY OF*	4,300	DW291082-01	2,645,000.00	11/20/2001
TRI-COUNTY WATER AUTHORITY	19,000	DW291068-01	2,370,000.00	11/20/2001
CAMDEN COUNTY PWSD #2**	2,280	DW291122-01	430,000.00	05/08/2002
CLEVER, CITY OF**	811	DW291109-01	410,000.00	05/08/2002
CRYSTAL CITY*	4,247	DW291050-01	1,300,000.00	05/08/2002
JEFFERSON COUNTY WATER AUTHORITY	10,470	DW291121-02	8,230,000.00	05/08/2002
ELSBERRY TREATMENT UPGRADE**	1,896	DW291099-01	500,000.00	11/07/2002
LAWSON, CITY OF**	2,357	DW291127-01	1,080,000.00	11/07/2002
OSAGE BEACH, REFINANCING AND NEW PROJECT	15,000	DW291150-01	24,585,000.00	11/07/2002
PUXICO, CITY OF**	1,145	DW291134-01	540,000.00	11/07/2002
CARL JUNCTION DW IMPROVEMENTS**	2,188	DW291123-01	1,760,000.00	04/09/2003
GLASGOW, CITY OF**	1,263	DW291125-02	2,210,000.00	04/09/2003
JASPER COUNTY PWSD #1**	1,873	DW291131-01	1,400,000.00	04/09/2003
OSAGE BEACH, REFINANCING AND NEW PROJECT	15,000	DW291150-02	6,075,000.00	04/09/2003
BOWLING GREEN*	5,166	DW291165-01	3,160,000.00	11/20/2003
MARSHFIELD, CITY OF*	5,720	DW291148-02	6,310,000.00	11/20/2003
KNOB NOSTER WATER IMPROVEMENTS**	2,462	DW291139-01	1,000,000.00	11/20/2003
CASS-BATES #12**	1,800	DW291151-01	330,000.00	11/20/2003
GREEN CITY**	688	DW291164-01	490,000.00	11/20/2003
BROOKFIELD*	4,769	DW291178-01	3,055,000.00	05/28/2004
PINEVILLE**	768	DW291141-01	550,000.00	05/28/2004
KIRKSVILLE SOUTH PROJECT	16,988	DW291176-01	695,000.00	12/09/2004
MOBERLY	13,741	DW291158-01	5,100,000.00	12/09/2004
LIVINGSTON COUNTY PWSD #1**	1,240	DW291161-01	1,230,000.00	12/09/2004

# SRF Binding Commitments

State Fiscal Years 1997 through 2013

Project Name	Population Served	Project Number	Amount	Closing Date
ADAIR COUNTY PWSD #1*	7,989	DW291155-01	395,000.00	12/09/2004
PORTAGEVILLE*	3,600	DW291077-01	2,300,000.00	12/09/2004
FULTON, CITY OF	12,128	DW291124-01	4,500,000.00	05/19/2005
TRI-COUNTY WATER AUTHORITY	27,000	DW291181-02	23,000,000.00	05/19/2005
HUNTSVILLE**	1,600	DW291175-01	605,000.00	05/19/2005
CLARENCE CANNON WWC	42,000	DW291137-01	9,700,000.00	11/30/2005
KIRKSVILLE PHASE I	26,450	DW291183-01	1,805,000.00	11/30/2005
TRI-COUNTY WATER AUTHORITY	27,000	DW291181-03	17,625,000.00	11/30/2005
RUSSELLVILLE**	850	DW291172-01	650,000.00	11/30/2005
CLARENCE CANNON WWC	42,000	DW291137-02	590,000.00	04/27/2006
CAPE GIRARDEAU COUNTY PWSD #4**	692	DW291187-01	600,000.00	04/27/2006
SHELBY COUNTY PWSD #1**	1,205	DW291191-01	810,000.00	04/27/2006
CLAY COUNTY PWSD #3*	3,800	DW291196-01	2,295,000.00	11/16/2006
KIRKSVILLE PHASE II & DOWNTOWN	26,450	DW291184-01	3,500,000.00	05/01/2007
OSAGE BEACH*	4,100	DW291150-03	2,550,000.00	05/01/2007
RICHLAND**	1,805	DW291202-01	1,000,000.00	05/01/2007
SENECA**	2,135	DW291157-01	835,000.00	05/01/2007
IRONTON**	1,539	DW291145-01	2,500,000.00	05/01/2007
WASHBURN, CITY OF**	448	DW291171-01	1,420,000.00	05/01/2007
HAMILTON**	2,343	DW291207-01	385,000.00	11/15/2007
ASHLAND**	3,000	DW291043-02	1,240,000.00	10/30/2008
HOLCOMB**	840	DW291186-01	355,000.00	10/30/2008
POPLAR BLUFF, CITY OF	16,651	DW291204-01	6,195,000.00	10/30/2008
LIVINGSTON COUNTY PWSD #3**	2,210	DW291201-01	970,000.00	10/30/2008
COLE COUNTY PWSD #4**	1,100	DW291208-01	2,045,000.00	10/30/2008
	<b>73</b>		<b>\$250,735,000.00</b>	

## Funding Type: SRF CASH FLOW DIRECT LOAN

CLARENCE CANNON	42,000	DW291070-04	5,285,000.00	06/24/2010
MEADVILLE**	457	DW291243-01	622,700.00	10/26/2010
ADRIAN*	4,420	DW291245-02	343,200.00	12/22/2010
CHILHOWEE**	329	DW291233-01	585,000.00	12/22/2010
STOCKTON, CITY OF**	2,016	DW291282-02	860,000.00	05/26/2011
BARRY COUNTY PWSD #2 (CRESTWOOD WEST)**	182	DW291228-01L	282,000.00	06/22/2011
OSAGE COUNTY PWSD #3**	1,350	DW291216-01L	693,000.00	07/21/2011
CASS COUNTY PWSD #10**	2,610	DW291249-02L	702,000.00	09/28/2011
CLARKSBURG**	390	DW291234-01L	408,000.00	10/05/2011
NEOSHO	10,505	DW291308-01	9,425,000.00	12/19/2011
CASS COUNTY PWSD #11**	2,560	DW291313-01L	534,000.00	05/14/2012
PLATTE COUNTY PWSD #3**	1,200	DW291315-01L	582,000.00	06/19/2012
JEFFERSON COUNTY WATER AUTHORITY	14,005	DW291310-01L	751,000.00	07/25/2012
POPLAR BLUFF	16,651	DW291204-02L	1,324,000.00	07/31/2012
ROGERSVILLE**	3,047	DW291276-01L	682,000.00	08/14/2012
DESLOGE*	5,105	DW291258-01L	782,000.00	09/27/2012
WARSAW**	2,075	DW291293-01L	739,000.00	11/28/2012
JEFFERSON CO. PWSD #8*	3,500	DW291322-01L	260,000.00	11/29/2012
LINN**	1,430	DW291162-04L	1,143,000.00	01/30/2013
JEFFERSON CO. PWSD #12**	3,000	DW291324-01L	866,000.00	05/22/2013
TIPTON**	3,262	DW291331-01	606,600.00	06/18/2013
	<b>21</b>		<b>\$27,475,500.00</b>	

## Funding Type: SRF GRANT

BARRY COUNTY PWSD #2 (CRESTWOOD WEST)**	182	DW291228-01G	282,000.00	06/22/2011
OSAGE COUNTY PWSD #3**	1,350	DW291216-01G	693,000.00	07/21/2011
CASS COUNTY PWSD #10**	2,610	DW291249-02G	333,684.00	09/30/2011
CLARKSBURG**	390	DW291234-01G	340,000.00	10/05/2011

**SRF Binding Commitments**

State Fiscal Years 1997 through 2013

Project Name	Population		Amount	Closing Date
	Served	Project Number		
CASS COUNTY PWSD #11**	2,560	DW291313-01G	534,000.00	06/06/2012
PLATTE COUNTY PWSD #3**	1,200	DW291315-01G	582,000.00	06/12/2012
ROGERSVILLE**	3,047	DW291276-01G	559,113.00	08/24/2012
JEFFERSON COUNTY WATER AUTHORITY	14,005	DW291310-01G	751,000.00	09/06/2012
POPLAR BLUFF	16,651	DW291204-02G	1,324,000.00	09/07/2012
DESLOGE*	5,105	DW291258-01G	782,000.00	10/04/2012
JEFFERSON CO. PWSD #8*	3,500	DW291322-01G	260,000.00	12/06/2012
WARSAW**	2,075	DW291293-01G	739,000.00	12/20/2012
LINN**	1,430	DW291162-04G	1,117,620.00	02/22/2013
JEFFERSON CO. PWSD #12**	3,000	DW291324-01G	866,000.00	05/22/2013
	<b>14</b>		<b>9,163,417.00</b>	

**Total Binding Commitments      \$332,526,769.00**

\* Systems that serve <10,000 population

\*\* Systems that serve 3,300 or less population

**Missouri Department of Natural Resources**  
**Drinking Water State Revolving Fund**  
**Statement of Net Assets - Unaudited**  
**June 30, 2013**

**Exhibit 2**

	Loan Fund	Administrative Fee Fund	Set-Aside Fund	Total Enterprise Funds
Assets:				
Current assets:				
Cash and cash equivalents	\$ 31,375,932	\$ 8,781,512	\$ -	\$ 40,157,444
Restricted investments	1,223,215	-	-	1,223,215
Receivables:				
Loan interest	4,058,550	-	-	4,058,550
Investment interest	122,837	14,290	-	137,127
Administrative fees	-	684,577	-	684,577
Due from EPA	-	-	1,456,849	1,456,849
Other receivables	213	-	-	213
Current portion of loans receivable:				
Leveraged loans	11,070,000	-	-	11,070,000
Direct loans	1,915,282	-	-	1,915,282
Reserve loans	5,831,485	-	-	5,831,485
Total current assets	<u>55,597,514</u>	<u>9,480,379</u>	<u>1,456,849</u>	<u>66,534,742</u>
Non-current assets:				
Restricted investments	11,346,465	-	-	11,346,465
Bond issue costs	404,310	-	-	404,310
Loans receivable:				
Leveraged loans	139,500,000	-	-	139,500,000
Direct loans	42,364,185	-	-	42,364,185
Reserve loans	80,781,319	-	-	80,781,319
Total non-current assets	<u>274,396,279</u>	<u>-</u>	<u>-</u>	<u>274,396,279</u>
Capital assets	-	-	54,348	54,348
Less accumulated depreciation	-	-	(12,744)	(12,744)
Capital assets, net of accumulated depreciation	-	-	41,604	41,604
Total assets	<u>329,993,793</u>	<u>9,480,379</u>	<u>1,498,453</u>	<u>340,972,625</u>
Liabilities:				
Current liabilities:				
Accounts payable	-	-	314,810	314,810
Accrued salaries and benefits payable	-	-	103,093	103,093
Bond interest payable	4,180,414	-	-	4,180,414
Current portion of bonds payable	13,163,212	-	-	13,163,212
Current portion of deferred revenue	-	-	10,870	10,870
Due to State of Missouri	-	-	1,038,946	1,038,946
Total current liabilities	<u>17,343,626</u>	<u>-</u>	<u>1,467,719</u>	<u>18,811,345</u>
Non-current liabilities:				
Deferred revenue	-	-	30,734	30,734
Bonds payable, net of deferred amounts	162,037,533	-	-	162,037,533
Total non-current liabilities	<u>162,037,533</u>	<u>-</u>	<u>30,734</u>	<u>162,068,267</u>
Total liabilities	<u>179,381,159</u>	<u>-</u>	<u>1,498,453</u>	<u>180,879,612</u>
Net assets:				
Invested in capital assets	-	-	41,604	41,604
Restricted for loans and debt service	150,612,634	9,480,379	(41,604)	160,051,409
Total net assets	<u>\$ 150,612,634</u>	<u>\$ 9,480,379</u>	<u>\$ -</u>	<u>\$ 160,093,013</u>

See accompanying notes to the financial statements.

**Missouri Department of Natural Resources**  
**Drinking Water State Revolving Fund**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets - Unaudited**  
**Year Ended June 30, 2013**

**Exhibit 3**

	Loan Fund	Administrative Fee Fund	Set-Aside Fund	Total Enterprise Funds
Operating revenues:				
Interest income on SRF loans	\$ 8,120,270	\$ -	\$ -	\$ 8,120,270
Administrative fees	-	883,844	-	883,844
EPA set-aside operating grants	-	-	6,196,275	6,196,275
Other	43,948	-	-	43,948
Total operating revenues	<u>8,164,218</u>	<u>883,844</u>	<u>6,196,275</u>	<u>15,244,337</u>
Operating expenses:				
Salaries and benefits	-	-	2,478,377	2,478,377
Travel	-	-	28,108	28,108
Other administrative expenses	-	-	2,716,361	2,716,361
Indirect costs	-	-	963,419	963,419
Depreciation expense	-	-	10,010	10,010
Grant payments	3,534,236	-	-	3,534,236
Other expenses	154,588	-	-	154,588
Total operating expenses	<u>3,688,824</u>	<u>-</u>	<u>6,196,275</u>	<u>9,885,099</u>
Operating income	<u>4,475,394</u>	<u>883,844</u>	<u>-</u>	<u>5,359,238</u>
Non-operating revenues (expenses):				
Environmental Protection Agency grants	13,499,241	-	-	13,499,241
Investment income	472,991	52,277	-	525,268
Bond issue expense	(58,429)	-	-	(58,429)
Interest expense on bonds payable	(7,887,913)	-	-	(7,887,913)
Transfer to Clean Water Program	(10,000,000)	-	-	(10,000,000)
Total non-operating revenues (expenses)	<u>(3,974,110)</u>	<u>52,277</u>	<u>-</u>	<u>(3,921,833)</u>
Increase in net assets	501,284	936,121	-	1,437,405
Net assets, beginning of year	<u>150,111,350</u>	<u>8,544,258</u>	<u>-</u>	<u>158,655,608</u>
Net assets, end of year	<u>\$ 150,612,634</u>	<u>\$ 9,480,379</u>	<u>\$ -</u>	<u>\$ 160,093,013</u>

See accompanying notes to the financial statements.

**Missouri Department of Natural Resources**  
**Drinking Water State Revolving Fund**  
**Statement of Cash Flows - Unaudited**  
**Year Ended June 30, 2013**

**Exhibit 4**

	Loan Fund	Administrative Fee Fund	Set-Aside Fund	Total Enterprise Funds
Cash flows from operating activities:				
Grant disbursements	\$ (3,534,236)	\$ -	\$ -	\$ (3,534,236)
Loan disbursements	(10,136,115)	-	-	(10,136,115)
Repayments received on loans	17,810,524	-	-	17,810,524
Interest received on loans	8,298,973	-	-	8,298,973
Administrative fees	-	919,914	-	919,914
EPA set-aside grant	-	-	6,129,138	6,129,138
Payments to employees	-	-	(2,477,734)	(2,477,734)
Other administrative payments	-	-	(3,786,404)	(3,786,404)
Other	43,950	-	159,975	203,925
Net cash provided by operating activities	<u>12,483,096</u>	<u>919,914</u>	<u>24,975</u>	<u>13,427,985</u>
Cash flows from noncapital financing activities:				
Bond principal retired	(12,040,000)	-	-	(12,040,000)
Interest paid on bonds	(8,710,291)	-	-	(8,710,291)
Environmental Protection Agency grants	13,499,241	-	-	13,499,241
Transfer to Clean Water Program	(10,000,000)	-	-	(10,000,000)
Net cash used by noncapital financing activities	<u>(17,251,050)</u>	<u>-</u>	<u>-</u>	<u>(17,251,050)</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	-	-	(24,975)	(24,975)
Cash flows from investing activities:				
Proceeds from sales and investment maturities	1,251,609	-	-	1,251,609
Purchase of investments	(10,025)	-	-	(10,025)
Investment income	480,514	55,502	-	536,016
Net cash provided by investing activities	<u>1,722,098</u>	<u>55,502</u>	<u>-</u>	<u>1,777,600</u>
Increase (decrease) in cash and cash equivalents	(3,045,856)	975,416	-	(2,070,440)
Cash and cash equivalents, beginning of year	<u>34,421,788</u>	<u>7,806,096</u>	<u>-</u>	<u>42,227,884</u>
Cash and cash equivalents, end of year	<u>\$ 31,375,932</u>	<u>\$ 8,781,512</u>	<u>\$ -</u>	<u>\$ 40,157,444</u>
Reconciliation of net operating income to net cash provided by operating activities:				
Operating income	\$ 4,475,394	\$ 883,844	\$ -	\$ 5,359,238
Adjustments to reconcile net operating income to net cash provided by operations:				
Depreciation expense	-	-	10,010	10,010
Uncollectible accounts expense	154,588	-	-	154,588
Changes in assets and liabilities:				
Decrease in loan interest receivable	178,704	-	-	178,704
Decrease in loans receivable	7,674,409	-	-	7,674,409
(Increase) decrease in other receivables	1	36,070	(82,101)	(46,030)
Increase in payables	-	-	97,066	97,066
Net cash provided by operating activities	<u>\$ 12,483,096</u>	<u>\$ 919,914</u>	<u>\$ 24,975</u>	<u>\$ 13,427,985</u>

See accompanying notes to the financial statements.



**Missouri Department of Natural Resources  
Drinking Water State Revolving Fund  
Statement of Fiduciary Net Assets - Unaudited  
June 30, 2013**

	<b>Exhibit 5</b>
	<u>Agency Fund</u>
Assets:	
Cash and cash equivalents	\$ 5,683,296
Investment interest receivable	42
Other receivables	<u>25,643</u>
Total assets	<u>5,708,981</u>
Liabilities:	
Project costs payable to communities	\$ 4,758,688
Interest subsidies payable to communities	39
Arbitrage rebate payable	83,431
Due to other governments	450,285
Other payables	<u>416,538</u>
Total liabilities	<u>5,708,981</u>
Net assets	<u><u>\$ -</u></u>

See accompanying notes to the financial statements.

**NOTE 1: Summary of Significant Accounting Policies**

**Reporting Entity**

The Missouri Department of Natural Resources (Department) Drinking Water State Revolving Fund (SRF) was established pursuant to the Safe Drinking Water Act (SDWA) Amendments of 1996. Section 1452 of this Act authorizes the Administrator of the U.S. Environmental Protection Agency (EPA) to establish a Drinking Water SRF Program to assist public water systems with financing the costs of infrastructure needed to achieve or maintain compliance with the SDWA requirements, to protect public health, and to allow states to carry out prevention programs.

The Drinking Water SRF was capitalized by the EPA through a series of grants starting in 1997. For most of the grants, states are required to provide an additional 20 percent of the federal capitalization grant as matching funds. As of June 30, 2013, Congress had authorized EPA to award \$273,047,331 in capitalization grants to the State of Missouri. The state is required to contribute \$47,037,066 in matching funds.

The program is administered by the Department, the Missouri Environmental Improvement and Energy Resources Authority (EIERA), and the Department's Safe Drinking Water Commission. The EIERA issues bonds or notes to finance qualified projects, and the Department receives the capitalization grants from the EPA. The program is comprised of four (4) funds within the state and an agency fund that holds the construction loan funds. The state funds are:

- Water and Wastewater Loan Fund (fund 0649) – receives the federal capitalization grant funds and uses those funds to make grants and loans;
- Water and Wastewater Loan Revolving Fund (fund 0602) - receives loan repayments and uses those funds to make new loans;
- Administrative Fee Fund (fund 0568) - receives the loan fees charged to borrowers and can be used to pay administrative costs of the program; and
- Department of Natural Resources Federal Fund (fund 0140) - receives federal capitalization grant funds that fund set-aside activities.

The Agency Fund accounts for the monies held at trustee banks on behalf of the loan participants. This includes their unspent loan funds, as well as the rebate funds held for arbitrage payments.

The State of Missouri's statewide Comprehensive Annual Financial Report includes the Drinking Water SRF Program information as a special revenue fund, which uses the modified accrual basis of accounting. Due to differences in reporting methods, there may be differences between the amounts reported in these financial statements and the Comprehensive Annual Financial Report. One (1) major difference between the amounts reported in these reports is that the agency fund is not included in the Comprehensive Annual Financial Report but is shown in these financial statements.

**NOTE 1: Summary of Significant Accounting Policies - continued****Program Operations**

The program provides financing to participants using three (3) main types of funding: leveraged and reserve loans, direct loans, and grants.

**A. Leveraged and Reserve Loans**

Prior to state fiscal year 2010, the program's main type of financing was through the use of leveraged and reserve loans. Missouri leverages federal and state matching funds by issuing revenue bonds to make loans to qualified communities and by using federal grant and state matching funds to create reserves for the loans. Interest earned on the reserves subsidizes loan interest rates and enhances the security of the loans, which are pledged to repay bond principal and interest. Borrowers, in essence, receive two (2) loans from the SRF: a market-rate loan funded by the revenue bond proceeds that equals project construction costs, and a zero-rate loan funded by capitalization grants and state matching funds that funds the reserves for the bonds. Bond proceeds are deposited to the construction loan accounts, which are held by the trustee bank. As communities draw on these funds to pay construction costs, a percentage of that amount (33.33 percent for bonds issued prior to 2002, 50 percent for bonds issued from 2002-2003, and 70 percent for bonds issued after 2003) is transferred to a reserve account established for each borrower. For loans closed in state fiscal year 2009, the reserve accounts were funded at closing rather than as construction funds are released. Earnings in the reserve account reduce the borrower's net interest payments on the bonds, resulting in the subsidized, blended interest rate on the project loan.

Beginning with bond series 2003C, a portion of the revenue bonds sold to fund the leveraged loans are state match bonds that will be repaid with interest earnings on the loans. The state match bond proceeds are used to fund a portion of the construction loan account, while the reserve account is funded with federal grant and recycled funds.

**B. Direct Loans**

Direct loans that were closed on prior to state fiscal year 2010 were funded from the Water and Wastewater Loan Revolving Fund. Loan proceeds are deposited to the construction loan accounts, which are held by the trustee bank. As construction costs are incurred, funds are released from the trustee bank to the borrower. The borrower repays the loan by making monthly principal and interest payments to the trustee bank. On the debt service due dates, the trustee bank makes the debt service payment to the program.

During state fiscal year 2010, the program changed how it funds direct loans. Instead of funding the loan up front and holding the funds at a trustee bank, the loan is funded incrementally as construction costs are incurred and funds are requested by the loan recipient. These loans are funded with federal grant and/or recycled funds.

<b>NOTE 1: Summary of Significant Accounting Policies - continued</b>
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### C. Grants

Missouri was awarded the American Recovery and Reinvestment Act (ARRA) capitalization grant during state fiscal year 2010. The terms and conditions of the ARRA capitalization grant required that not less than 50 percent of assistance provided be in the form of additional loan subsidies, such as principal forgiveness, negative interest loans or grants. Missouri chose to provide the required additional subsidization through grants. ARRA projects were funded through a combination of 50 percent grant and 50 percent loan with a maximum grant of \$2,000,000 per applicant. Disadvantaged communities were eligible for a 75 percent grant with a 25 percent direct loan. Grant payments were made directly to the recipient as construction costs were incurred.

Terms and conditions of the following capitalization grants require that additional subsidization in the form of principal forgiveness, negative interest rate loans, or grants be provided. Missouri has chosen to provide the additional subsidization through grants. The following table lists the ranges at which additional subsidization is required:

Federal Fiscal Year	Drinking Water Capitalization Grant	State Fiscal Year Awarded	Minimum	Maximum
2010	FS997629-10	2011		30.00 percent
2011	FS997629-11	2012		30.00 percent
2012	FS997629-12	2013	20.00 percent	30.00 percent

### **Basis of Accounting**

The financial statements include enterprise funds and a fiduciary fund. The loan, administrative fee and set-aside funds are presented as enterprise funds and the agency fund is presented as a fiduciary fund. All funds are maintained on the accrual basis. The enterprise funds are accounted for using the flow of economic resources measurement focus. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded at the time the liabilities are incurred. All assets and liabilities associated with the operations of the enterprise funds are included on the Statement of Net Assets. The assets and liabilities of the agency fund are included on the Statement of Fiduciary Net Assets. The program has elected to follow the accounting pronouncements of the Governmental Accounting Standards Board, as well as statements issued by the Financial Accounting Standards Board on or before November 30, 1989, unless the Financial Accounting Standards Board statements conflict with or contradict Governmental Accounting Standards Board pronouncements. The program has elected not to follow Financial Accounting Standards Board statements issued subsequent to November 30, 1989. Fiscal year end accruals include expenditures the program was cognizant of through August 22, 2013.

**NOTE 1: Summary of Significant Accounting Policies - continued**

Drinking Water SRF reports the following major funds:

*Loan Fund.* The loan fund provides financial assistance to municipalities, counties, political subdivisions and instrumentalities of the state. Funding for these loan programs is generated from federal capitalization grants, proceeds of revenue bonds issued to provide required state matching monies, proceeds of revenue bonds issued for the leveraged program, and recycled monies.

*Administrative Fee Fund.* This fund accounts for the administrative fees received on loans and the use of those fees to pay salaries and associated expenses of program personnel devoting time to the administration of the program. Currently, salaries and associated expenses of program personnel are being paid from the set-aside fund.

*Set-Aside Fund.* The set-aside fund provides monies to establish and implement programs with emphasis on preventing contamination problems through source-water protection and encouraging better system operations. The Drinking Water SRF Program allows states to reserve up to 31 percent of the capitalization grant to use towards Administration and Technical Assistance, Small System Technical Assistance, Public Water System Supervision Program Management and Local Assistance and Other State Programs. In 2013, the Department reserved 31 percent of the federal fiscal year 2012 grant for set-aside activities.

In addition, the program reports the following fund type:

*Agency Fund.* This fund accounts for monies held on behalf of municipalities, counties, political subdivisions, and instrumentalities of the state. This fund includes the funds generated by the sale of the bonds, which are deposited with a trustee bank in the applicant's name and are used for SRF eligible activities.

### **Cash, Cash Equivalents and Investments**

#### **A. Enterprise Funds**

All monies in the four (4) state funds (funds 0140, 0568, 0602, and 0649) are required to be deposited with the Missouri State Treasurer's Office, which is responsible for maintaining these deposits in accordance with state law. The program considers all such deposits to be cash. Investment interest earnings on these deposits are received by the program periodically throughout the month. According to state law, the Treasurer is responsible for maintaining the cash balances and investing excess cash of the program, as further discussed in Note 2. Consequently, management of the program does not have any control over the investment of the excess cash. The statement of cash flows considers all funds deposited with the Treasurer to be cash or cash equivalents, regardless of actual maturities of the underlying investments.

**NOTE 1: Summary of Significant Accounting Policies - continued**

Monies of the enterprise funds that are held at the trustee bank are invested in either money market mutual funds, guaranteed investment contracts (GIC), or state and local government series securities (SLGS) by the trustee bank. The money market mutual funds are considered to be cash or cash equivalents. The SLGS are longer term investments and are stated at fair value. The GIC's are stated at cost as they are not negotiable or transferable and are not affected by market fluctuations. The enterprise funds do not include monies held at trustee banks on behalf of the loan participants. Those monies are accounted for under the agency fund.

**B. Agency Fund**

The agency fund accounts for the monies held at trustee banks on behalf of the loan participants. This includes their unspent loan funds, as well as the rebate funds held for arbitrage payments. The program considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

**Operating Revenues and Expenses**

Revenues and expenses as a result of providing loans and grants to participants are considered operating revenues and expenses. Operating revenues include interest earned on loans, administrative fee revenue, and operating grants. Operating expenses include grant payments, salaries, benefits, and other administrative expenses.

The non-operating revenues and expenses of the program are investment income, EPA capitalization grant revenues, and bond related expenses.

**Administrative Fees**

The program charges an administrative fee to borrowers to fund administrative costs of operating the program. The program's administrative expenses are currently paid with grant set-aside funds instead of with funds from the administrative fee fund. During the year ended June 30, 2013, \$919,914 was collected for administrative fees from borrowers and \$55,502 of investment interest was received. The cash balance of the administrative fee fund was \$8,781,512 as of June 30, 2013.

**Bonds Payable**

Bonds issued prior to 2010 are special limited obligations of EIARA, payable from borrower loan repayments and a reserve account established for each borrower in accordance with a master trust agreement. Interest expense is reported on the accrual basis. Due to the flow-through effect of the bonds and related receivables, bond discounts, premiums and issuance costs are not reported by the program since they represent the costs of the borrowers.

<b>NOTE 1: Summary of Significant Accounting Policies - continued</b>
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Borrowers make monthly payments to debt service repayment accounts, which also earn interest that further subsidizes the interest rates. On bond payment dates, transfers are made from the repayment accounts to the debt service funds to make the semi-annual interest payments and annual bond principal payments. Interest earnings on the construction loan accounts and reserve accounts are also transferred to the debt service funds on the bond payment dates. These interest earnings reduce the amount that is needed from the repayment accounts.

As outstanding bond principal is reduced, a proportional amount is released from the reserve account. The released amounts flow to the master trust unallocated fund, and, if there are no defaults, are transferred to the Water and Wastewater Loan Revolving Fund to be used to make new loans.

Bonds issued since 2010 are different than previous issues. There is no longer a direct link between the bonds and the loans. Any premium or cost of issuing the bonds is no longer passed on to the loan borrower. Therefore, those amounts are reported on the program's financial statements.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

<b>NOTE 2: Cash, Cash Equivalents and Investments</b>
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### **State Funds**

All cash in the four (4) state funds (funds 0140, 0568, 0602, and 0649) is required to be deposited with the State Treasurer, who is responsible for maintaining and investing the pooled cash balances in accordance with state laws. The Treasurer is required to maintain a mix of investments in order to allow funds to be withdrawn at any time to meet normal operating needs. The program's share of the investment income from the local government investment pool is based on the average daily balance for the period and is credited to the program periodically throughout the month. The Treasurer has its own policies for custodial credit risk, interest rate risk, credit risk, concentration of credit risk and foreign currency risk. Details of the investments and risks can be obtained from the State Treasurer's Office.

**NOTE 2: Cash, Cash Equivalents and Investments - continued**

All cash and investments in the local investment pool are stated at cost, which approximates fair value. The investments in the local government investment pool are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

**Trustee Bank Funds**

All cash and investments held by trustee banks are invested in accordance with the trustee investment agreement and the bond indentures. Allowable investments include:

- Federal securities.
- Direct and general obligations of the State which are pledged by the full faith and credit of the State and are rated in either of the two highest rating categories.
- Deposits at banks, trust companies or savings and loan associations which are fully insured by FDIC.
- Federal funds, unsecured certificates of deposit, time deposits and banker acceptances (having maturities of not more than 365 days) of any bank and which are rated in the highest short term rating category.
- Unsecured promissory notes of any bank, trust company, national banking association or bank holding company equal to such institution's outstanding unsecured long term debt that is rated in the highest rating category.
- Tax exempt permitted investments.
- Any other investment agreement with a provider which is rated, or whose unsecured, long term obligations are rated at least "Aa2" or equivalent, or with a provider whose obligations are guaranteed by a guarantor which is rated, or whose unsecured, long term obligations are rated at least "Aa2" or equivalent.
- Commercial paper issued by domestic corporations rated in the second highest short term rating category.
- Shares in money market mutual funds rated in the highest applicable rating category.

*Custodial credit risk.* This is the risk that, in the event of the failure of the counterparty, the program will not be able to recover the value of its deposits or investments. Of the cash and cash equivalents held by the trustee banks, \$99,554 of deposits were exposed to a custodial credit risk because it was collateralized with securities held by the counterparty's trust department but not in the name of the program. The remaining \$18,624,241 of cash and cash equivalents is invested in money market mutual funds. The money market mutual funds and the guaranteed investment contracts are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. The state and local government series securities are uninsured.



<b>NOTE 2: Cash, Cash Equivalents and Investments - continued</b>
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As of June 30, 2013, the agency fund and the loan fund had the following investments:

Investment Type	Fair Value	Investment Maturities		
		<1 Year	1-5 Years	>5 Years
State and Local Government				
Series Securities	\$8,300,354	\$439,960	\$1,768,468	\$6,091,926
Guaranteed Investment Contracts	4,269,326	783,255	3,486,071	0
Money Market Mutual Funds	18,624,241	18,624,241	0	0
	<u>\$31,193,921</u>	<u>\$19,847,456</u>	<u>\$5,254,539</u>	<u>\$6,091,926</u>

*Interest rate risk.* Interest rate risk is the risk that changes in interest rates may adversely affect the investment's fair value. The program does not have a policy to address interest rate risk.

*Credit risk.* The trustee banks are responsible for monitoring credit risk as it relates to the types of investments that can be made in accordance with the trustee investment agreement. The program has no investment policy that further limits its investment choices. As of June 30, 2013, the program's money market mutual funds are rated AAA by Standard and Poor's. The state and local government series securities and guaranteed investment contracts are unrated.

*Concentration of credit risk.* The program places no limit on the amount that may be invested with any one issuer. The percent of total investments held by each provider as of June 30, 2013 is as follows:

Investment Issuer	Fair Value	Percent of Total
Westdeutsche Landesbank Girozentrale	\$4,269,326	100%

<b>NOTE 3: Loans Receivable</b>
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Loans receivable consist of three (3) types: leveraged loans, reserve loans, and direct loans. Leveraged loans are funded by the sale of revenue bonds, the proceeds of which are deposited to a construction loan fund. Borrowers are loaned funds from the construction loan fund to pay for construction costs incurred. The terms of the loans mirror the terms of the bonds in order to provide the funds to pay bond interest and principal according to the terms of the bonds. In conjunction with the leveraged loan that funds construction, a reserve loan is made to provide an interest subsidy to the borrower and to provide security for bond principal and interest. With direct loans, there is no bond sale directly related to the loan. The loans are funded directly from the federal capitalization grant or recycled monies.

<b>NOTE 3: Loans Receivable - continued</b>
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The following details the three (3) types of loans as of June 30, 2013:

<u>Loan Type</u>	<u>Loan Amount Authorized</u>	<u>Outstanding Balance</u>
Leveraged Loans	\$250,735,000	\$150,570,000
Reserve Loans	133,403,148	86,612,804
Direct Loans	<u>68,178,700</u>	<u>44,279,467</u>
Totals	<u>\$452,316,848</u>	<u>\$281,462,271</u>
Less Current Maturities		<u>18,816,767</u>
Loans Receivable, Net of Current Portion		<u>\$262,645,504</u>

Loans receivable activity during the year ended June 30, 2013 is summarized as follows:

	6/30/2012			6/30/2013
Type of Loan	Balance	Disbursements	Repayments	Balance
Direct Loans	\$35,694,105	\$10,136,115	\$(1,550,753)	\$44,279,467
Leveraged Loans	161,260,000	0	(10,690,000)	150,570,000
Reserve Loans	92,337,163	0	(5,724,359)	86,612,804
	<u>\$289,291,268</u>	<u>\$10,136,115</u>	<u>\$(17,965,112)</u>	<u>\$281,462,271</u>

### **Loan Maturities**

The scheduled principal payments in subsequent years are as follows:

Year Ending				
June 30	Direct Loans	Leveraged Loans	Reserve Loans	Total
2014	\$1,915,282	\$11,070,000	\$5,831,485	\$18,816,767
2015	2,375,500	11,450,000	6,168,452	19,993,952
2016	2,417,406	11,985,000	6,489,207	20,891,613
2017	2,454,500	12,560,000	6,674,666	21,689,166
2018	2,502,600	12,740,000	6,817,721	22,060,321
2019-2023	12,724,684	61,780,000	34,644,838	109,149,522
2024-2028	13,330,085	28,290,000	19,499,935	61,120,020
2029-2032	6,559,410	695,000	486,500	7,740,910
Total	<u>\$44,279,467</u>	<u>\$150,570,000</u>	<u>\$86,612,804</u>	<u>\$281,462,271</u>

<b>NOTE 3: Loans Receivable - continued</b>
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**Loans to Major Local Agencies**

As of June 30, 2013, the program had made leveraged loans to five (5) agencies that, in the aggregate, exceeded \$10,000,000. The outstanding balances of the leveraged and reserve loans for these agencies represent approximately 47 percent of the total loans receivable, as follows:

<u>Borrower</u>	<u>Original Amount</u>	<u>Outstanding Balance</u>	<u>Reserve Balance</u>
Tri-County Water Authority	\$42,995,000	\$31,630,000	\$22,761,147
Osage Beach	33,210,000	21,410,000	11,582,607
Cape Girardeau	27,495,000	894,800	0
Clarence Cannon WWC	23,980,000	17,046,400	6,354,267
Jefferson County Water Authority	20,167,000	14,165,508	5,733,980
Total	<u>\$147,847,000</u>	<u>\$85,146,708</u>	<u>\$46,432,001</u>

<b>NOTE 4: Bonds Payable</b>
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The Missouri Drinking Water SRF Program issues revenue bonds to finance qualified projects and uses federal capitalization grants and state matching funds to provide reserves for the bonds. The bonds are issued by the EIARA and proceeds from the bond sales are deposited into the borrowers' accounts with the trustee bank. Bonds payable and loans receivable are recorded in the loan fund. Cash and project costs payable are recorded in the agency fund. As borrowers incur costs, funds are transferred from the construction loan fund to the borrower. At the same time, the program draws federal and state matching funds to establish the bond reserves. For bond series 2008A, the reserves were fully funded on the day of bond closing, rather than being funded incrementally as construction funds are released. Interest earned on the construction loan fund and the reserve fund subsidizes the interest on the borrower's loan. As borrowers repay the loans, the interest and principal serve as the source of funds to pay bond principal and interest.

Beginning with bond series 2003C, state match bonds were issued by the EIARA in addition to leveraged bonds. Proceeds from both the state match bonds and the leveraged bonds are deposited into the borrowers' accounts at the trustee bank. The reserves for the leveraged bonds are then funded by federal capitalization grants or recycled funds.

In state fiscal year 2011, revenue bond series 2010B was issued. Proceeds of this bond sale went to the recycled fund to provide additional funding for new loans. This bond

<b>NOTE 4: Bonds Payable - continued</b>
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sale is different from previous bonds in that the 2010B bond was not sold to provide funding for a specific group of loans. It was to provide additional funding that can be used to fund any loan being funded with recycled monies. The principal and interest repayments on the program's direct loans have been pledged to make the principal and interest repayments on the bonds.

As of June 30, 2013, 24 separate bond issues had been sold which totaled \$327,065,000. The individual series, outstanding balances, and principal due included:

Series	Amount Issued	Outstanding Balance	Current Portion	Effective Rate to Community
Revenue Bond Series 1998B interest of 3.45% to 5.25% due semi-annually, principal due annually to January 2019.	\$28,795,000	\$82,550	\$21,450	3.08
Revenue Bond Series 1999A interest of 3.625% to 5.25% due semi-annually, principal due annually to January 2017.	2,315,000	795,000	180,000	3.07
Revenue Bond Series 1999B interest of 4.125% to 5.75% due semi-annually, principal due annually to July 2020.	4,320,000	250,000	40,000	3.57
Revenue Bond Series 2000A interest of 4.6% to 5.75% due semi-annually, principal due annually to July 2020.	20,490,000	685,000	145,000	3.51
Revenue Bond Series 2000B interest of 4.5% to 5.625% due semi-annually, principal due annually to July 2021.	6,810,000	320,000	50,000	3.37
Revenue Bond Series 2001A interest of 4.0% to 5.0% due semi-annually, principal due annually to January 2022.	6,295,000	205,000	40,000	2.93

<b>NOTE 4: Bonds Payable - continued</b>
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Series	Amount Issued	Outstanding Balance	Current Portion	Effective Rate to Community
Revenue Bond Series 2001C interest of 3.0% to 5.375% due semi-annually, principal due annually to July 2023.	\$23,400,000	\$9,790,000	\$1,220,000	3.45
Revenue Bond Series 2002A interest of 2.0% to 5.375% due semi-annually, principal due annually to January 2023.	10,370,000	815,000	125,000	2.43
Revenue Bond Series 2002B interest of 2.0% to 5.50% due semi-annually, principal due annually to July 2023.	26,705,000	15,250,000	1,215,000	2.43
Revenue Bond Series 2003B interest of 2.0% to 5.125% due semi-annually, principal due annually to January 2024.	11,445,000	945,000	125,000	2.18
Revenue Bond Series 2003C interest of 2.0% to 5.0% due semi-annually, principal due annually to July 2023.	11,290,000	2,585,000	635,000	1.70
2003C Leveraged Portion	9,795,000	1,970,000	540,000	
2003C State Match Portion	1,495,000	615,000	95,000	
Revenue Bond Series 2004A interest of 2.0% to 5.0% due semi-annually, principal due annually to July 2021. (Refunding Bonds)	17,325,000	14,745,000	1,575,000	n/a
Revenue Bond Series 2004B interest of 2.0% to 5.25% due semi-annually, principal due annually to January 2024.	3,605,000	2,840,000	130,000	1.63
2004B Leveraged Portion	2,950,000	2,520,000	90,000	
2004B State Match Portion	655,000	320,000	40,000	

<b>NOTE 4: Bonds Payable - continued</b>
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Series	Amount Issued	Outstanding Balance	Current Portion	Effective Rate to Community
Revenue Bond Series 2004C interest of 3.0% to 5.25% due semi-annually, principal due annually to January 2026.	\$9,720,000	\$3,455,000	\$555,000	1.63
2004C Leveraged Portion	7,865,000	2,615,000	435,000	
2004C State Match Portion	1,855,000	840,000	120,000	
Revenue Bond Series 2005A interest of 3.0% to 5.0% due semi-annually, principal due annually to July 2025.	28,105,000	19,810,000	1,120,000	1.77
2005A Leveraged Portion	22,745,000	16,920,000	795,000	
2005A State Match Portion	5,360,000	2,890,000	325,000	
Revenue Bond Series 2005C interest of 3.25% to 5.25% due semi-annually, principal due annually to July 2026.	29,780,000	22,440,000	1,265,000	1.34
2005C Leveraged Portion	23,930,000	18,940,000	910,000	
2005C State Match Portion	5,850,000	3,500,000	355,000	
Revenue Bond Series 2006A interest of 3.6% to 5.25% due semi-annually, principal due annually to July 2026.	2,000,000	1,555,000	90,000	1.55
2006A Leveraged Portion	1,610,000	1,340,000	65,000	
2006A State Match Portion	390,000	215,000	25,000	
Revenue Bond Series 2006B interest of 4.0% to 5.0% due semi-annually, principal due annually to July 2027.	2,295,000	1,940,000	115,000	1.58
2006B Leveraged Portion	1,960,000	1,700,000	90,000	
2006B State Match Portion	335,000	240,000	25,000	
Revenue Bond Series 2007A interest of 4.0% to 4.75% due semi-annually, principal due annually to January 2028.	11,805,000	9,275,000	535,000	1.33
2007A Leveraged Portion	10,095,000	8,240,000	425,000	
2007A State Match Portion	1,710,000	1,035,000	110,000	

<b>NOTE 4: Bonds Payable - continued</b>
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Series	Amount Issued	Outstanding Balance	Current Portion	Effective Rate to Community
Revenue Bond Series 2007B interest of 4.0% to 5.0% due semi-annually, principal due annually to January 2026.	\$385,000	\$360,000	\$10,000	1.51
Revenue Bond Series 2008A interest of 4.0% to 5.75% due semi-annually, principal due annually to January 2029.	10,805,000	9,130,000	475,000	1.63
2008A Leveraged Portion	9,255,000	8,020,000	370,000	
2008A State Match Portion	1,550,000	1,110,000	105,000	
Revenue Bond Series 2010A interest of 2.0% to 5.0% due semi-annually, principal due annually to January 2024. (Refunding Bonds)	35,920,000	32,230,000	3,315,000	n/a
Revenue Bond Series 2010B interest of 2.0% to 5.0% due semi-annually, principal due annually to July 2030.	12,605,000	11,975,000	590,000	n/a
2010B Leveraged Portion	7,860,000	7,690,000	190,000	
2010B State Match Portion	4,745,000	4,285,000	400,000	
Revenue Bond Series 2011A interest of 2.0% to 5.0% due semi-annually, principal due annually to January 2024.	10,480,000	10,310,000	0	n/a
Total Leveraged Bonds	\$303,120,000	\$156,737,550	\$11,971,450	
Total State Match Bonds	23,945,000	15,050,000	1,600,000	
Premium on Bonds		5,593,242	921,575	
Deferred Amt. on Refundings		(2,180,047)	(395,544)	
Total Revenue Bonds	<u>\$327,065,000</u>	<u>\$175,200,748</u>	<u>\$14,097,481</u>	

<b>NOTE 4: Bonds Payable - continued</b>
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Bond activity during the year ended June 30, 2013 is summarized as follows:

	6/30/2012			6/30/2013
	Balance	Repayments	New Issues	Balance
Leveraged Program Bonds	\$167,232,550	\$(10,495,000)	\$0	\$156,737,550
State Match Bonds	16,595,000	(1,545,000)	0	15,050,000
Premium on Bonds	6,564,827	(971,585)	0	5,593,242
Deferred on Refunding	(2,592,482)	412,435	0	(2,180,047)
Total	\$187,799,895	\$(12,599,150)	\$0	\$175,200,745

The required annual payments, not including premium and deferred amounts, for all revenue bonds in subsequent fiscal years are as follows:

#### Leveraged Bonds

Year Ending June 30	Principal	Interest	Total
2014	\$11,971,450	\$7,534,470	\$19,505,920
2015	12,514,000	6,953,222	19,467,222
2016	13,213,500	6,337,522	19,551,022
2017	13,960,000	5,683,735	19,643,735
2018	14,313,600	4,978,488	19,292,088
2019-2023	58,700,000	15,451,627	74,151,627
2024-2028	29,490,000	3,705,496	33,195,496
2029-2031	2,575,000	164,669	2,739,669
Total	\$156,737,550	\$50,809,229	\$207,546,779

#### Match Bonds

Year Ending June 30	Principal	Interest	Total
2014	\$1,600,000	\$638,650	\$2,238,650
2015	1,545,000	575,006	2,120,006
2016	1,505,000	514,329	2,019,329
2017	1,425,000	454,857	1,879,857
2018	1,345,000	393,604	1,738,604
2018-2023	5,330,000	1,158,729	6,488,729
2024-2028	2,130,000	240,694	2,370,694
2029-2031	170,000	7,262	177,262
Total	\$15,050,000	\$3,983,131	\$19,033,131



<b>NOTE 4: Bonds Payable - continued</b>
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**Advance Refundings**

Three (3) separate refunding bond series (Series 2004A, 2010A and 2011A) totaling \$63,725,000 have been issued to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in irrevocable trusts for the purpose of generating resources for future debt service payments of \$66,632,450 of revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. As of June 30, 2013, the amount of refunded bonds that had yet to be called totaled \$8,130,000.

<b>NOTE 5: Arbitrage Rebate</b>
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In accordance with Internal Revenue Code Section 148(f) relating to arbitrage restrictions on tax-exempt bonds, an arbitrage rebate payable in the amount of \$83,431 has been recorded. This liability is cumulative for the Series 2004B, and 2007A bonds. The portion of this pending rebate of excess investment earnings that is attributable to each series is due no later than 60 days after each installment computation date. The next installment computation date for each series is as follows:

Bond Series	Next Installment Computation Date
2004B	1/1/2014
2007A	1/1/2017

<b>NOTE 6: Net Assets</b>
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All net assets of the program are restricted. The program's enabling legislation and related regulations require that all money in the fund be used only for purposes of the program.

<b>NOTE 6: Net Assets - continued</b>
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The program is capitalized by grants from the EPA, authorized by Section 1452 of the Safe Drinking Water Act, and matching funds from the State of Missouri. As of June 30, 2013, the EPA has awarded capitalization grants totaling \$273,047,331, of which \$205,933,377 has been drawn. During 2013, \$18,500,000 of capitalization grant funds were transferred to the Clean Water SRF program, adjusting the total awarded by EPA to \$254,547,331. The adjusted award amount of \$254,547,331 includes the \$1,444 in-kind amount on the FS997629-00 grant and the \$100,000 in-kind amounts on the FS997629-06, FS997629-08 and FS997629-11 grants. These amounts are not available to be drawn.

The following summarizes the capitalization grants awarded, amounts drawn on each grant, and balances available:

Grant ID	Grant Amount	Total Draws June 30, 2012	2013 Draws	Total Draws June 30, 2013	Available June 30, 2013
FS997629-97	\$21,856,417	\$21,856,417	\$0	\$21,856,417	\$0
FS997629-98	9,572,970	9,572,970	0	9,572,970	0
FS997629-99	10,034,771	10,034,771	0	10,034,771	0
FS997629-00	10,429,700	10,428,256	0	10,428,256	0
FS997629-01	10,472,900	10,472,900	0	10,472,900	0
FS997629-02	11,702,600	11,702,600	0	11,702,600	0
FS997629-03	11,633,700	11,633,700	0	11,633,700	0
FS997629-04	12,066,800	12,066,800	0	12,066,800	0
FS997629-05	12,041,273	12,041,273	0	12,041,273	0
FS997629-06	15,978,200	15,878,200	0	15,878,200	0
FS997629-07*	12,578,000	12,498,760	79,240	12,578,000	0
FS997629-08*	10,716,000	4,304,415	6,311,585	10,616,000	0
FS997629-09*	10,616,000	3,673,550	5,496,757	9,170,307	1,445,693
FS997629-10*	21,434,000	2,547,758	7,471,425	10,019,183	11,414,817
2F977082-01	37,862,000	37,592,628	269,372	37,862,000	0
FS997629-11	18,204,000	0	0	0	18,104,000
FS997629-12	17,348,000	0	0	0	17,348,000
	<u>\$254,547,331</u>	<u>\$186,304,998</u>	<u>\$19,628,379</u>	<u>\$205,933,377</u>	<u>\$48,312,510</u>

\*These grants were amended during state fiscal year 2013.

As of June 30, 2013, state matching contributions were as follows:

	June 30, 2012	2013 Contribution	June 30, 2013
State Appropriations	\$15,504,549	\$0	\$15,504,549
State Match Bonds (sold by EIERA)	24,447,276	0	24,447,276
Rural Water Grants	7,160,162	0	7,160,162
Total State Match	<u>\$47,111,987</u>	<u>\$0</u>	<u>\$47,111,987</u>

**NOTE 6: Net Assets - continued**

The state match bonds sold by EIARA are being repaid with Drinking Water SRF interest earnings and are not contributions to fund equity. The state match provided by the Rural Water Grants are not contributions to fund equity as these grants were funded by proceeds from a Missouri State Bond Sale prior to 2012. EPA had given the Department authorization to utilize these grants towards state match.

**NOTE 7: Set-Aside Costs**

The Federal Safe Drinking Water Act allows states to reserve, or “set-aside” up to 31 percent of the capitalization grant to implement and maintain activities to help public water systems provide safe drinking water to the public. The Safe Drinking Water Act establishes four (4) categories of set-asides and sets a maximum amount for each. In state fiscal year 2013, the Department reserved 31 percent of the federal fiscal year 2012 grant for set-aside activities.

**Set-Aside Capitalization Grant Balances**

The following capitalization grants have balances available to draw for set-aside activities which is detailed by set-aside category of available funding.

Grant	Program Administration	Technical Assistance	State Program Management	Capacity Development	Total Funds Available
2010	194,905	234,103	296,048	530,340	1,255,396
2011	728,160	364,080	1,820,400	2,730,600	5,643,240
2012	693,920	346,960	1,734,800	2,602,200	5,377,880
Total	\$1,616,985	\$945,143	\$3,851,248	\$5,863,140	\$12,276,516

<b>NOTE 7: Set-Aside Costs - continued</b>
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**Set-Aside Federal Draws**

The table below identifies the total amounts drawn from each of the capitalization grants for set-aside activities to date:

Grant	Program Administration	Technical Assistance	State Program Management	Source Water Protection and Capacity Development	Total Set-Aside
1997	\$874,304	\$436,780	\$1,435,760	\$1,834,798	\$4,581,642
1998	382,996	191,227	956,241	0	1,530,464
1999	401,416	200,704	1,003,035	0	1,605,155
2000	350,092	207,834	1,043,573	0	1,601,499
2001	414,990	209,110	1,043,225	0	1,667,325
2002	133,446	110,994	826,088	443,559	1,514,087
2003	454,980	227,490	1,137,450	568,725	2,388,645
2004	482,672	241,336	1,206,680	603,340	2,534,028
2005	481,652	240,777	1,204,130	1,204,152	3,130,711
2006	539,128	319,564	1,297,820	1,397,820	3,554,332
2007	639,120	319,560	1,597,800	798,900	3,355,380
2008	632,640	316,320	1,581,600	1,581,600	4,112,160
2009	632,640	316,320	1,581,600	1,581,600	4,112,160
ARRA	700,000	757,240	0	0	1,457,240
2010	854,455	290,577	2,327,352	3,404,760	6,877,144
2011	0	0	0	0	0
2012	0	0	0	0	0
Total	\$7,974,531	\$4,385,833	\$18,242,354	\$13,419,254	\$44,021,972

<b>NOTE 8: Defined Benefit Pension Plan</b>
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**Plan Description**

The State of Missouri participates in the Missouri State Employees' Plan, which is a single-employer defined benefit pension plan administered by the Missouri State Employees' Retirement System, known as MOSERS, as provided by the Revised Statutes of Missouri Sections 104.010 and 104.312 to 104.1215. MOSERS provides retirement, death and disability benefits to its members. Missouri law establishes and amends benefit provisions. MOSERS issues a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to Missouri State Employees' Retirement System at P.O. Box 209, 907 Wildwood, Jefferson City, Missouri 65102-0209.

**NOTE 8: Defined Benefit Pension Plan - continued****Funding Policy**

The State of Missouri is obligated by state law to make all required contributions to the Missouri State Employees' Plan. The actuarially determined contributions are expressed as a level percentage of covered payroll. The actuarially determined contributions rate for the Missouri State Employees' Plan is 14.45 percent for the year ended June 30, 2013. Actual contribution rates are the same as the actuarially determined rates. No employee contributions are required. The amount of retirement contributions paid by the State of Missouri and allocated to expense of the program was \$256,823 for the year ended June 30, 2013.

**NOTE 9: Contingencies**

The program is exposed to various risks of loss related to torts, theft of assets, errors or omissions, injuries to state employees while performing program business or acts of God. The program maintains insurance through the State of Missouri for all risks of loss, which is included in the indirect costs allocated to the program. There have not been any claims against the program since its inception in 1997.

Drinking Water SRF Source and Distribution of Funds Fund 0568 For State Fiscal Years 2013			
State Fiscal Year 2013	Program Income Earned During Grant Period	Program Income Earned After Grant Period	Non-Program Income
FY 13 Income	\$ 111,512	\$ 667,803	\$ 140,599
FY 13 Interest Earnings	\$ 29,075	\$ 23,393	\$ 3,035
Subtotal	\$ 140,587	\$ 691,197	\$ 143,634
State Fiscal Year Expenses			
FY13 Personnel Services	\$ -	\$ -	\$ -
FY13 Fringe	\$ -	\$ -	\$ -
FY13 Equipment & Expenses	\$ -	\$ -	\$ -
FY13 PSD Expenditures	\$ -	\$ -	\$ -
FY13 DNR Transfers	\$ -	\$ -	\$ -
FY13 ITSD Transfers	\$ -	\$ -	\$ -
FY13 HB 13 Transfers	\$ -	\$ -	\$ -
FY13 OA Cost Allocation	\$ -	\$ -	\$ -
FY13 State Owned Expenditures	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -
Subtotal	\$ 140,587	\$ 691,197	\$ 143,634





**Missouri  
Department of  
Natural Resources**

Water Protection Program - Financial Assistance Center  
P.O. Box 176 Jefferson City, MO 65102-0176  
800-361-4827      [www.dnr.mo.gov](http://www.dnr.mo.gov)